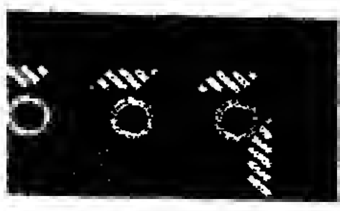
FINANCIAL TIMES



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World Business Newspaper
WEDNESDAY NOVEMBER 15 1995
D8523A

Brussels clears $5.2bn packaging merger deal

The European Commission has formally cleared a $5.2bn merger creating the world's most powerful packaging company after the two companies involved, Crown Cork & Seal of the US and France's CarnaudMetalbox, agreed to sell five aerosol can plants in France, the UK, Italy, Spain and Germany. Page 18

Arjo Wiggins Appleton, the Anglo-French paper group, warned that pre-tax profits this year would be "materially" below its 1994 results because of a sharp decline in sales. Page 19; Lex, Page 23

US government in shutdown: The US government stopped all non-essential activities after President Bill Clinton and the Republican Congress failed to break a budget deadlock blocking further funding of federal operations. About 40 per cent of the government'e non-military federal workforce faced immediate lay-off. 800,000 pack up and go home, Page 18

Deutsche banker quits for Merrill Lynch:

Guy Dawson (left), head of corporate finance at Deutsche Morgan Grenfell, continued the run of defections by senior executives from investment banks in London by resigning to join Merrill Lynch. Mr Dawson, known for having led the recovery of corporate finance at Morgan Grenfell after the Guinness affair in 1988, is to join Merrill Lynch next year. Page 19

Breast implant makers in $3bn offer: A group of US manufacturers has made a new offer to settle lawsuits from women who have had silicone breast implants, which could be worth $3bn if accepted by all the women who are eligible. Page 8

Bayer, the German chemicals company, beat off several rivals to clinch the $580m acquisition of the engineering plastics business of US chemicals company Monsanto. Page 19

Britain stands firm on EU defence: Britain refused to back down in its determination to keep the 10-member Western European Union defence body separate from the European Union. Page 2

FBI joins Saudi bomb probe: US Federal Bureau of Investigation agents will help the Saudi Arabian authorities investigations into Monday's car-bomb blast in central Riyadh which killed six people and injured 60. Page 9

Brazilian bank merger rumoured: Brazil's securities commission has suspended trading in shares of Banco Nacional and Unibanco, two of the country's biggest private banks, and asked for clarification of reports that they are to merge. Page 20

Royal Dutch Shell confirmed its long-term commitment to the oil and gas industry in Nigeria and its investment in the $3.6bn liquefied natural gas project at Bonny, the largest investment project in Africa, despite last week's execution of nine minority rights campaigners. Page 9; The long view, Page 16

USAir shares fall: The stock price of USAir tumbled in the wake of Monday night's decision by United Airlines' parent, UAL, to end takeover talks with the troubled carrier. Page 20; Lex, Page 18

Russian budget deficit jumps: A sharp rise in Russia's monthly budget deficit in October, prompted suspicions that the government might be attempting to "buy" votes in the run-up to next month's parliamentary elections. Page 2

Normandy, the Australian mining group, is to consolidate its listed gold-mining units into one company with an estimated market capitalisation of about A$3bn (US$2.2bn) – making it the seventh largest gold producer in the world. Page 22

Daimler-Benz, Germany's biggest industrial conglomerate, said sales in nine months ending September 30 had picked up 3 per cent to DM72.5bn ($51.1bn) but warned that it still expected "a severe net loss" for the whole year. Page 21

Leeson extradition approved: Germany approved former Barings bank trader Nick Leeson's extradition to Singapore and one official said he expected the handover to take place next week.

Kashmir hostage seriously ill: Two of four western hostages held by Kashmiri guerrillas since July in the troubled Indian state are sick and one of them is struggling for life, their captors said. A handwritten statement given to Indian newspapers did not identify which of the captives were ill.

Boeing beats Airbus to $12.7bn Singapore order

Rolls-Royce nets record deal to supply engines worth $1.9bn

By Michael Skapinker in London and Kieran Cooke in Kuala Lumpur

Boeing of the US yesterday delivered a severe blow to Airbus Industrie, the European consortium, by winning an order from Singapore Airlines for 77 Boeing 777 aircraft which could be worth up to $12.7bn.

Rolls-Royce of the UK triumphed over Pratt & Whitney and General Electric, its US rivals, to win the contract to supply engines for most of the aircraft.

The contract is Rolls-Royce's biggest ever sale and the first time it has sold a large engine to Singapore, traditionally a Pratt & Whitney customer.

Rolls-Royce said the order could be worth up to £1.2bn, ($1.9bn) although the airline said such a figure was based on the engine'e list price and it had won some concessions.

The battle for the Singapore aircraft order was hotly contested, with Boeing's 777 pitted against the Airbus A330. Mr Cheong Choong Kong, Singapore's managing director, said bids from the two companies had been very close, but the 777 had won because its capacity – passenger carrying potential – was 10 per cent higher than the A330.

The twin-engined 777, which began making commercial flights earlier this year, is expected to be the last new aircraft developed this century.

Singepore has mede firm orders for 34 777s, with the remaining 43 on option. The airline said it planned to use the aircraft, seating 300 passengers, for medium-range routes in the Far East. The airline said, however, it might change some of its orders to the long-range version of the 777, which will be eble to fly from Singapore to Los Angeles.

Singapore, which made pre-tax profits of $676m last year, said it expected to finance the purchase from cash flow, althongh it would resort to borrowing or aircraft leasing if necessary.

The order is e boost to Boeing, which is in the midst of a strike by about one third of its 105,000 employees. The US manufacturer last year won fewer orders than Airbus for the first time since the edvent of the jet age.

However, this year Boeing has surged back into first place. Even before the Singapore announcemeot, it had 251 aircraft orders this year, compared with only 83 for Airbus.

Airbus – which is owned by Aérospatiale of France, Daimler-Benz Aerospsce of Germany, British Aerospace and Casa of Spain – did not even have the compensation of seeing the order split, as happened last year when Singapore placed orders for 52 aircraft valued et $10.3bu. The airline then ordered 30 Airbus A340s and 22 Boeing 747-400s.

Singapore has ordered 157 Trent engines from Rolls-Royce, including 35 spares. The engines will be mounted on 61 of the new aircraft. The remaining 16 aircraft will go to Singapore Aircraft Leasing Enterprise, the airline'e leaeing associate. No decision has been made on engines for these aircraft.

The Singapore sale provides considerable compensation for Rolls-Royce after its failure to win British Airways' order for engines for its 777s.

EDS wins $940m Rolls-Royce systems deal, Page 10
Lex, Page 18

Euro-bank takes cautious line on monetary union

Single currency to replace states' notes and coins by 2002, says EMI

By Wolfgang Münchau in Frankfurt

The single European currency should not completely replace member states' notes and coins until July 2002, the European Monetary Institute proposed yesterday in a new timetable for monetary union.

The blueprint by the EMI, forerunner of the proposed European central bank, is broadly in line with German thinking, and ends the debate over whether the single currency would become legal tender immediately after its planned introduction in 1999.

Individuals and companies in Europe, says the EMI, should not be compelled to use the single currency until it replaces national currencies.

But the monetary policy and foreign exchange operations of the European central bank and national central banks should switch over to the single currency as soon as it is available as a form of exchange in 1999.

The EMI, whose report is likely to be formally accepted by EU leaders at the Madrid summit next month, "expects" governments to use the Euro-currency, which is yet to be named, to issue debts from that date.

The report sets out a three-year transition, starting in 1999, when participating currencies will be irrevocably linked to each other, and ending "no later" than January 2002.

There would then be a six-month period for the central European bank to introduce new European banknotes and coins. From July 2002, national currencies would not be legal tender.

Mr Yves-Thibault de Silguy, EU monetary affairs commissioner, welcomed the report but reiterated the European Commission's view that the changeover period to the single currency "should be as rapid as possible".

The Bundesbank and the Bonn government have campaigned for a long transitional phase, to ensure a smooth transfer for Germany's regional and state authorities, and the country's numerous savings banks.

But yesterday's EMI proposals are unlikely to settle the currency debate in Germany. A conference of the opposition Social Democratic party was yesterday divided over whether to start a fresh national debate over the timing of monetary union.

Mr Alexandre Lamfalussy, president of the EMI, said the final draft was influenced strongly by "concerns expressed by savings banks. These were most strongly expressed in Germany, but also in other countries."

German banks welcomed the findings. The Federation of German Credit Unions, which had expressed unease about a quick transition scenario, welcomed the document as an improvement over the Commission's paper, since it would eliminate the risk of a "dual currency chaos".

Mr Lamfalussy acknowledged that more work needed to be done to secure public support for the single currency. "You cannot explain to citizens what the advantages of the single currency are if you don't have a name. We'd like to have a name that is spelt in the same way that is pronounceable in all the states," he said. The most important confidence-building measure was "the right choice of countries" for the transition to the final stage of Emu.

EU 'central bank' maps road to Euro-currency, Page 3
Bonn ups the ante, Page 16

The World Trade Organisation, headed by Renato Ruggiero (above), predicted an 8 per cent rise in the volume of merchandise trade in 1995, in its first full report on trends in international trade since its inception in January. Last year the rise was 9.5 per cent, the fastest for nearly 20 years. East Asia and central and eastern Europe starred as the most dynamic trading regions last year. Mr Ruggiero said yesterday that this trend had continued in the first half of 1995. The report also found that the 15 biggest traders – the main OECD countries and Asian developing economies – account for roughly 70 per cent of all trade. *Details, Page 6* Picture: AP

Sony plans entry into PC market with Intel

By Michiyo Nakamoto in Tokyo and Louise Kehoe in Las Vegas

Sony, the Japanese consumer electronics maker, plans to enter the expanding home personal compoter market through an alliance with Intel, the leading US semiconductor manufacturer.

The two companies have agreed a long-term tie-up to develop jointly hardware and software for PCs and other consumer electronics products.

Sony will launch its first home PCs late next year in the US, followed by Japan and Europe a year later.

The alliance brings together the world's leading brands in consumer electronics and microprocessors, which are the "brain" chips of personal computers. It represents a significant step towards the merging of the consumer and information technology industries.

Areas of collaboration are expected to include development of technologies for new types of home electronics products and new features for PCs including audiovisual and communications

Continued on Page 18
A change of direction for Sony, Page 20

3M to spin off data storage business and shut video tape arm

By Tony Jackson in New York

Minnesota Mining & Manufacturing (3M), the highly diversified US manufacturer, is to spin off its data storage and imaging businesses into a separate company with sales of $2.3bn.

It will also close its unprofitable audio and visual tape business, which had sales last year of $650m. There will be 5,000 job losses worldwide at a cost of some $600m.

The spin-off, which will leave the company with sales of $12bn, is a further example of the trend to demerger in the US, illustrated this year by the break-up of the telephone giant AT&T and the conglomerate ITT.

3M, which makes 60,000 products, has traditionally been seen as expert in managing a diverse portfolio of businesses.

The moves are also a response to ecute competitive pressure, resulting from rising raw materials prices and a sluggish US economy. 3M's earnings growth has been slowing sharply this year, and there had been rumours of e demerger. 3M's shares rose 6 per cent to $62⅝ in early trading yesterday, valuing the whole company at $26bn.

The business being spun off is in two parts: media for data storage, such as CD-Roms, computer discs and optical tape: and medical imaging, consisting of machines for capturing images from medical scanners and X-ray and other film.

The company said the business was not as profitable as its core ectivities, which take in e range of products from Scotch tape and Post-it notes to industrial abrasives and fasteners.

The imaging and data storage markets were highly competitive and fast-moving, and the new company would be able to respond more flexibly on its own, 3M said. It added: "We're e 93-year-old company, and we have our own way of doing things. We couldn't keep pace."

In audio and video tape, 3M claims to be number one or two in the US market, although it is much weaker in the Far East. It said yesterday that the business had broken even last year but further improvemants in efficiency had not been feasible, nor had a buyer been found.

The company said: "We used to take four days from getting raw material to putting the product on the truck, and now we take 25 minutes. It's still oot good

Continued on Page 18
World stocks, Page 38

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,885.90	(+13.0)
NASDAQ Composite	1,050.10	(-8.36)
Europe and Far East		
CAC40	1,838.21	(-0.03)
DAX	2,187.29	(+22.01)
FT-SE 100	3,547.9	(+11.1)
Nikkei	17,802.51	(+13.05)

US LUNCHTIME RATES

Federal Funds	5¾%
3-mth Treas Bills: Yld	5.549%
Long Bond	106½
Yield	6.280%

OTHER RATES

UK: 3-mo Interbank	6⅞%	(6¾%)
UK: 10 yr Gilt	104⅞	(104⅜)
France: 10 yr OAT	104.63	(104.6)
Germany: 10 yr Bond	101.25	(101.2)
Japan: 10 yr JGB	113.144	(113.388)

NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$16.345	(16.375)

GOLD

New York: Comex		
(Dec)	$386.5	(388.1)
London:		
close	$386.85	(388.0)

DOLLAR

New York: lunchtime		
£	1.5585	
DM	1.4125	
FFr	4.8765	
SFr	1.13875	
Y	101.55	
London:		
£	1.564	(1.5587)
DM	1.4145	(1.4195)
FFr	4.8805	(4.8941)
SFr	1.1395	(1.1442)
Y	101.54	(101.725)

STERLING

DM	2.2123	(2.2125)
Tokyo close:	Y 101.75	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDH15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lv110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£3.00	Japan	Y500	Philippines	Pes50	Switz	SFr3.80
Estonia	Ekr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£30.00
Finland	FM15	Kuwait	Fils625	Portugal (mainland)	Es250	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L60,000
Germany	DM3.90	Lux	LFr70			UAE	Dh12.00

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Russian budget deficit shoots up

By John Thornhill in Moscow

Russia's monthly budget deficit rose unexpectedly sharply in October, leading to suspicions that the government might be attempting to "buy" votes in the run-up to next month's parliamentary elections.

According to yesterday's edition of Russian Economic Trends, the monthly budget deficit, which has hovered below 3.6 per of gross domestic product for the past few months, shot up to 8.3 per cent in October.

The government has not fully explained the reasons for the rise, but economists suggest it might reflect increased payments on social welfare and pensions arrears ahead of the elections.

Mr Andrei Illarionov, director of the independent Institute of Economic Analysis, said: "Some part of the government's spending increase is likely to be social spending, some is on Chechnya, and some money is going to pay arrears that built up in September."

Both President Boris Yeltsin and Mr Victor Chernomyrdin, the prime minister, who heads a moderate electoral bloc, have recently stressed the need to ease social tensions by increasing payments to the poor and pensioners.

Economists suggest that the Russian government can afford to increase spending without endangering its economic stabilisation programme given its good budgetary housekeeping in the earlier part of the year. So far this year, expenditure as a percentage of GDP has run at 18.5 per cent, compared with 22.3 per cent in the comparable period of 1994.

"The government has been running considerably below the budget deficit ceilings agreed with the IMF all through the late summer and fall, and everyone expected this margin to be eroded as the elections approached," said one western economist. "There is no reason for particular concern at this point."

Other economists also pointed out that Russian statistics were often erratic and subject to revision.

Last week, Mr Yevgeny Yasin, the economics minister, said government revenues had been temporarily affected by the liquidity problems that paralysed the inter-bank lending market in August. Cash-strapped banks had not fully passed on tax payments from industrial concerns, he said.

● Russia and its western government creditors yesterday agreed to try to come to "a global accord" on rescheduling all future repayments of Moscow's official debt, David Buchan writes from Paris.

The decision was reached at talks yesterday in Paris between Mr Oleg Davydov, the Russian vice-premier in charge of foreign trade, and the Paris Club of western government creditors.

The Paris Club, which in June rescheduled $6.4bn worth of Russian debt falling due this year, said yesterday it was now ready to go further, in the light of Russia's good performance in sticking to goals agreed last April with the IMF and of the fact that its negotiations with the IMF on a 1996-98 programme were far advanced.

Tougher action urged on EU fraud

By Caroline Southey in Strasbourg

The European Commission is to propose tougher sanctions against member states in the fight against fraud, including freezing funds if there is evidence of EU money being misspent. Mr Erkki Liikanen, budget commissioner, said yesterday firmer action was necessary if fraud and irregularities in the allocation of EU funds were to be eliminated.

"Money is the best incentive," he said. "It is not easy to go against member states but it is necessary."

He was speaking after publication of the annual Court of Auditors report which found that fraud, payments made in error, and spending which did not achieve its objectives reached Ecu500m (£421m) of the EU's total spending budget of Ecu70.7bn last year. More than 80 per cent of the EU's expenditure is allocated by member states through national, regional and local bodies.

Mr Liikanen said changes were needed to "strengthen the Commission's hand. The Court of Auditors clearly wants the Commission to have better control". Changes, which the report showed were "overdue", included forging a "new partnership" with member states to improve financial management.

The report called for the Commission and member states to institute "substantial change" to the "financial management culture" of the Union. Urgent attention needed to be given to weak management of funds, insufficiently clear targets and a failure to recover funds wrongly paid or overpaid.

Mr Liikanen's call for tougher sanctions follows earlier proposals to improve financial controls in the Commission.

These include setting up "internal housekeeping" measures to ensure budgets are better managed, and closer co-ordination with member states on the annual accounts.

Commission takes it on the chin

Brussels has abandoned its old defensive stance on Court of Auditors report, writes **Caroline Southey**

Given the day's events were dominated by the most controversial annual event in the EU's diary, the Court of Auditors report on fraud and irregularities, a *peculiarly friendly atmosphere* pervaded the European parliament building yesterday.

The traditional cries of pain as knives plunged into the backs of EU institutions was replaced with the sound of mutual back-slapping. Auditors congratulated the Commission and the parliament, MEPs congratulated the Commission and the auditors, while the Commission congratulated everybody, itself included.

"Last year the atmosphere was bad," said Mr John Wiggins, a member of the team of auditors. "This year it is clearly different."

This was attributed primarily to the Commission's markedly different approach. Mr *Erkki Liikanen*, budget commissioner, abandoned the old low-profile and defensive approach, opting instead to face the music in the parliamentary chamber as Mr André Middelhoek, president of the Court of Auditors, presented their damning conclusions.

Mr Liikanen's relaxed approach and detailed response to accusations levelled against the Commission brought a new dimension to the debate on the EU's finances. "We now have a new culture in the fight *against fraud and improving* financial management," said Mr John Tomlinson, the UK labour party's spokesman for budgetary affairs in the parliament. "The Commission's response has been positive. Instead of going into its shell and being defensive, it has given broad acceptance of the report's conclusions."

But, a senior official warned that, despite Mr Liikanen's best intentions, "the jury is still out" on whether the "new financial management culture" will take root.

Mr Liikanen also faces a potentially bruising battle with member states over who is responsible to whom for budgetary spending since some four-fifths of it passes through national, regional or local government hands.

The Commissioner's hand could be strengthened by the fact that member states, notably absent yesterday, emerged as the victims of the day's more transparent proceedings – receiving a drubbing in the auditors' report and a slap on the wrist from MEPs for failing to turn up to answer for themselves.

The auditors' conclusions provide a formidable agenda *for reform. In their* view the Commission and member states managed to waste Ecu500m (£421m) of EU taxpayers' money through a combination of paying out aid where they should not have and failing to recover funds where they should have.

They are also biting about Brussels' accounts, the subject of a special audit for the first time. Although the accounts are correct, the auditors conclude, there are "too many errors in the transactions underlying the Commission's payments for the Court to be able to give a positive assurance as to their legality/regularity".

Mr *Middelhoek* told MEPs that the problems of a lack of "financial management culture are reflected in poor budgetary planning, in weak management of available funds and the lack of urgency in recovering amounts wrongly paid".

Mr Liikanen, for his part, was quick to sift through the detail to provide his own analysis of what had been done to plug the budgetary leaks, what was in the pipeline, and what remained unresolved problems. *While accepting* the bulk of *the* findings, he said he prefered to be "more nuanced" about some of the criticisms.

Most of the report is devoted to describing how EU expenditure has failed to achieve policy objectives. The main areas of fraud and mismanagement and the potential for solving them include:

● The Phare and Tacis programmes, set up to help market reforms in eastern and central Europe and the former Soviet Union, are criticised although less vigorously than last year. The report says the programmes, under which the countries have so far received Ecu2.6bn and commitments of Ecu6bn, are still suffering from *a "lack of overall strategy"*, and there is no system for independent evaluation by the Commission.

Brussels' response has been that staff shortages have hampered its ability to cope with the dramatic increase in the size of the programmes.

● Poor management of the fruit and vegetables regime on which expenditure rose from Ecu700,000 in 1988 to Ecu1.6bn in 1994, over 56 per cent of which was used to pay farmers for withdrawing tomatoes and citrus from the market. Payments have been wrongly made because products are not checked before withdrawal and quality tests have not been *properly controlled*.

A complete overhaul of the system, drawn up by the Commission, awaits approval by ministers. Brussels believes the reforms will do away with "most if not all" of the problems identified in the report.

● Money for cross-border partnerships. The vast majority of programmes funded do not involve cross-border projects at all, says the report.

The Commission says member states have used the money to build up border regions as a first step to improving cross-border links.

● Customs fraud and irregularities. Duties evaded since 1990 exceed Ecu600m, while fraud in the transport of goods *within the Union has led* to loss of Ecu200m every year.

Brussels claims the court has understated how much of the evaded duties has been recovered.

Mr Liikanen predicted that it could take two to three years before financial management reforms would begin to show through.

But the main players in yesterday's drama agreed they had broken new ground in the fight against fraud.

Britain isolated over EU defence merger

By David White in Madrid

Britain refused to budge yesterday in its determination to keep the 10-member Western European Union defence body separate from the European Union. Foreign and defence ministers failed to narrow differences on the basic question of Europe's future security structure, which will have to be dealt with in the EU intergovernmental conference next year.

The UK stood at the far end of a wide spectrum of views, in which the remainder favoured either an outright merger or half-way approaches such as the EU council of ministers issuing guidelines or instructions to the defence body, or a legally-binding link between the two. Spanish officials described the UK yesterday as "the odd man out".

Ministers of the WEU, whose members all belong to both the EU and Nato, agreed on a document setting out a range of options for how the organisation should evolve, but only after the UK insisted that it should indicate no preference among them.

Mr Klaus Kinkel, German foreign minister, said efforts to persuade Britain to change its stance had failed. "I think we have made progress," he said, "but we were not in a position to convince the British."

Mr Malcolm Rifkind, UK foreign secretary, described Britain's aim as "a closer and more efficient partnership" between the WEU and EU. Stronger ties would be complicated by the presence in the EU of non-Nato countries.

"Our objective must be clarity, not confusion," he said. He added that a strong majority in the WEU favoured maintaining defence as a matter for intergovernmental decisions. There was also firm backing for improvements in the WEU's capability for peacekeeping or humanitarian operations.

'Not in the race' to head Nato: Javier Solana, Spanish foreign minister, and Mr Giulio Amato, former Italian prime minister

The meeting also provided an opportunity for sideline discussions among European Nato allies on the vexed question of Nato's next secretary-general, following the resignation of Mr Willy Claes. Officials said the question was now "back to square" one after US rejection of Mr Ruud Lubbers, the former Dutch prime minister, the Dutch government's opposition to moving Mr Hans van den Broek from the European Commission and French objections to Mr Uffe Ellemann-Jensen, the former Danish foreign minister.

Names floated included Mr Javier Solana, Spanish foreign minister, even though Spain is not part of Nato's integrated military structure. Spanish officials said: "For the moment he is not in the race." Mrs Susanna Agnelli, Italian foreign minister, also said Rome was not pressing the candidacy of former prime minister Mr Giulio Amato.

Yesterday's meeting included ministers from other EU and Nato countries, which have observer or associate status, and nine central and eastern European nations which have associate partner status.

French march to defend welfare system

By David Buchan in Paris

French unions held a series of demonstrations yesterday around the country in protest at imminent government measures to rein in the social security deficit, which is currently the subject of a heated three-day debate in the National Assembly.

Yesterday's union action was not a strike call, though it caused some interruptions, notably in Paris public transport, as workers joined the marches. But Force Ouvrière, which is deeply involved in administering the health insurance scheme, has called a 24-hour protest strike on November 28.

Mr Alain Juppé, the prime minister, who is to unveil his welfare reforms this afternoon came under pressure yesterday from his predecessor, Mr Edouard Balladur, who warned the government that it must cut social security spending rather than raise welfare charges if it were not to jeopardise economic growth.

At a backbench meeting of the governing RPR Gaullist party, to which he and Mr Juppé both belong, Mr Balladur claimed "as much right as the unions" to make known his views.

Mr Michel Péricard, the RPR parliamentary leader, predicted that the government would seek to push the welfare reforms through by decree. Requiring only general parliamentary votes at the start and finish of the procedure, the use of decrees is quicker than standard legislation and saves MPs from the embarrassment of having to vote on individually unpopular measures.

However, the leaders of the National Assembly and the Senate expressed concern yesterday to President Jacques Chirac that the resort to decrees would undermine parliament.

Meanwhile, a rash of student sit-ins and protests has broken out this week in a number of poorer universities which are clamouring for more money and teachers.

They are complaining about the slowness of the four-year programme announced last week by Mr Francois Bayrou, the education minister, to equalise conditions among the country's universities. One student union has called for "a national day of action" on November 21.

EUROPEAN NEWS DIGEST

Yeltsin picks new bank chief

President Boris Yeltsin yesterday nominated former acting finance minister Mr Sergei Dubinin as chairman of Russia's central bank. Mr Yeltsin sacked Mr Dubinin in October 1994 after the collapse in value of the rouble, which also brought about the fall of Mr Victor Gerashchenko, the central bank governor. Mr Dubinin has since been a board member of Gazprom, the huge gas producer.

Mr Dubinin became first deputy finance minister in March 1993, serving under Mr Boris Fyodorov in Mr Yegor Gaidar's reformist government. He became temporary acting finance minister in Mr Victor Chernomyrdin's government in January 1994 after Mr Gaidar's administration fell following the December 1993 election.

His appointment is subject to ratification by the parliament, which twice refused to approve Mrs Tatiana Paramonova, chosen by Mr Yeltsin to succeed Mr Gerashchenko. Some deputies said Mr Dubinin's work at Gazprom could hurt his chances of being confirmed because of the monopoly's powerful position in Russia's political and economic life.

Reuter, Moscow

Penitent Scharping unimpressive

Mr Rudolf Scharping, leader of Germany's opposition Social Democratic party, yesterday attempted to heal a year of internal party bickering by confessing his mistakes in an address to the party congress. He received a respectful rather than enthusiastic reception.

Mr Scharping moved early in his speech to address the bickering that has dominated German headlines for the past six months and damaged his popularity and that of the SPD. Departing from his prepared text, he admitted making mistakes. But in listing these, he accused others for the mess the party was in. Among his faults, Mr Scharping said, were to have sought consensus too much and to have relied too much on co-operation with others. He held back from naming his critics, such as Mr Gerhard Schröder, prime minister of Lower Saxony, and Ms Heide Simonis, prime minister of Schleswig Holstein. But Mr Scharping left the 525 delegates in no doubt about the consequences of the SPD's feuding: they included a *failure to get its policies across* and its recent disastrous performance in the Berlin city election.

Mr Scharping blamed the government, and not the cost of absorbing eastern Germany, for raising taxes and social security contributions to 48 per cent of the average wage from 39 per cent in 1982, the last year that the SPD held power in Bonn.

Peter Norman, Mannheim

Mud flies in Polish campaign

The campaign team of Poland's president Lech Walesa was yesterday accused of ties with a criminal and of drawing security services into his re-election fight. Aides of his rival, former communist Mr Aleksander Kwasniewski of the ruling Democratic Left Alliance party, went public with a tape of what they said was a convicted fraudster arranging by telephone to hand over money he had raised for Mr Walesa's election effort.

Mr Kwasniewski's team said the tape showed that Mr Walesa's campaign chief had lied in denying any links with Mr Andrzej Pastwa. The Walesa campaign boss, Mr Jerzy Gwizdz, said the tape had been faked.

Mr Kwasniewski's aides also renewed allegations that the security services, over which Mr Walesa has some influence as president, had been trying to gather damaging information on him. A parliamentary deputy of Mr Kwasniewski's party said State Protection Office agents had approached an aide of a minister close to Mr Kwasniewski, proposing that he work for them.

Mr Kwasniewski and Mr Walesa emerged almost level from the first round of the presidential election on November 5, and their scramble for extra votes has led to increasingly vicious personal attacks on both candidates ahead of Sunday's run-off ballot.

Reuter, Warsaw

Landslide for Shevardnadze

Georgia's president, Mr Eduard Shevardnadze, won an overwhelming 74.3 per cent of the vote in the election on November 5, according to official results released yesterday. The former Soviet foreign minister's nearest rival, Mr Dzhumber Patiashvili, Georgia's ex-communist chief, won 19.3 per cent.

The central electoral commission said at the weekend that partial results from a parliamentary election held the same day showed Mr Shevardnadze's Citizens' Union to be heading for a convincing victory. It said the centrist Citizens' Union had won 23.5 per cent of votes on the party list, which accounts for 150 of the seats in the 225-strong parliament. Only three of the 52 parties contesting the elections crossed the 5 per cent threshold needed to take up seats. The opposition National Democratic party won 7.9 per cent of the vote, and the Revival Union, which also backs Mr Shevardnadze, won just over 7 per cent.

Reuter, Tbilisi

Banco Ambrosiano appeals start

One of Italy's longest-running court battles will reopen in Milan today when 33 people begin their appeal against convictions three years ago for involvement in the collapse of Banco Ambrosiano in 1982. The appeal is likely to be adjourned until late December or early January to allow time for further plea-bargaining. A ruling is expected by next summer, although this decision would also be subject to appeal to the supreme court on legal grounds.

The heaviest jail sentences went to Mr Umberto Ortolani and Mr Licio Gelli, accused of controlling the bank through the rogue masonic lodge, P2. Mr Carlo De Benedetti, chairman of Olivetti, the computer group, is also appealing against a sentence of more than six years' imprisonment for being an accessory to fraudulent bankruptcy. Mr De Benedetti has always claimed he was forced to leave the bank by its chairman Mr Roberto Calvi, after he questioned his methods and management.

Andrew Hill, Milan

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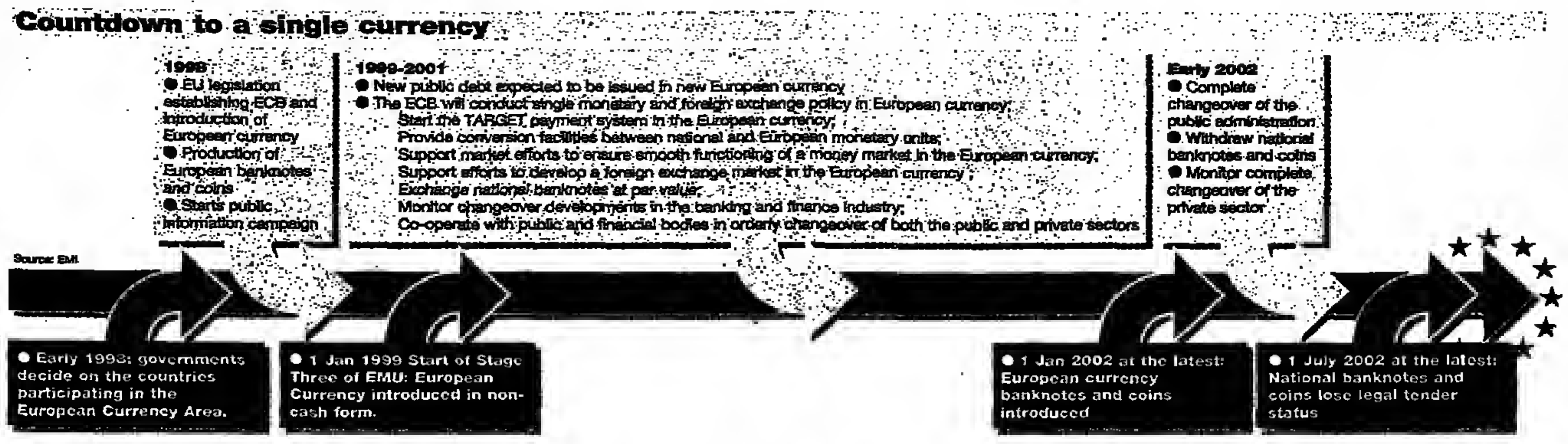
EU 'central bank' maps road to Euro-currency

Wolfgang Münchau outlines the proposals of the European Monetary Institute



The European Monetary Institute yesterday set out a four-step timetable for introducing a single European currency.

It proposes that the first step start in early 1998, a year before the envisaged move towards permanently fixed exchange rates, and that the process end on July 1, 2002, when the single currency becomes the sole legal tender and national currencies are no longer accepted.

Details of the transition have been subject to debate among central bankers for some time. In its recommendations, the EMI come down firmly on the side of a delayed switchover.

During the transition period (1999-2002), the EMI says: "Private economic agents should be free to use the European monetary unit. On the other hand, they should not be obliged to do so before the deadline set for the completion of the changeover and should be able to continue using the national monetary units."

The exceptions to this non-compulsion are the monetary policy and foreign exchange operations of the European central bank and its national bank affiliates such as the Bundesbank. It also recommends that public debt issues be denominated in the European currency.

The EMI proposes that, early in 1998, EU leaders decide on who will take part in economic and monetary union (Emu), starting from January 1, 1999.

On January 1, 1999, it says, exchange rates between participating currencies should turn into "conversion rates", so that "the national currencies and the European currency will become different expressions of what is economically the sama currency". National currencies will remain in place.

On January 1, 2002, "at the latest", the central bank and its various national affiliates would begin issuing new European coins and banknotes, and start axchanging national banknotes and coins for European notes and coins.

On July, 1, 2002, the changeover will bave been completed "for all operations and all agents", says the EMI. National banknotes and coins "will gradually disappear from circulation". The single currency will become tha sole legal tander.

In the interim stage between 1999 and 2002, "financial markets will largely change over to the European monetary unit at an early stage", the EMI says. "However, most private individuals and most enterprises are expected to continue to operate in the national monetary units."

Before 1999, the EU must decide on the member states eligible to participate in Emu and draw up legislation to put the new currency on a sound legal footing.

This legislation would deal with conversion rates at which the participating currencies will be irrevocably fixed, the legal status of the new curreucy and the method by which national currencies are to be replaced.

The EMI said this legislation should ensure that "economic agents should not be compelled to use the European monetary unit before the completion of the changeover".

Mr Alexandre Lamfalussy, president of the EMI, said the interim phase would be characterised by two core phases of transition – ona at the beginning of the process and one at the end, wben tha new currency is physically introdnced.

In 1999, when exchange rates are fixed, "the EMI expects that new public debt issues will be denominated in the European currancy from the start of stage three, in particular as regards securitias actively traded in financial markets. Such actions would promote the development of the financial market in the European currency and enhance its liquidity and depth."

To allow smaller banks to cope with the transition, the EMI recommends the setting up of "conversion facilities" which would expire when national banknotes ceased to be legal tender. The national banks could provide such facilities, the EMI says, to "enable those counter-parties to deal witb the national central banks in the national monetary units for all payments, in particular for all monetary policy operations. These facilities will allow them to send payment orders or other information to national central banks expressed in national monetary units."

The interim phase would be followed by six months during which the new currency would be introduced. The EMI said phasing in the new banknotes and coins "cannot be done overnight", due to logistical difficulties, which may result in bottlenecks, and because of the time it may take to mint sufficient coins and to adapt antomated teller machines. .

The EMI said a six-month period would be long enough to ensure a smooth transition but short enough to minimise the disadvantages of a dual operating system.

At the end of that process "all monetary liabilities will *de jure* be redeemable only in the European currency. The banking and finance industry would only bandle European currency transactions."

See Ian Davidson, Page 16

The monetary plan with a German accent

By Wolfgang Münchau in Frankfurt

Ooe of the most revealing documents in yesterday's pile of papers from the European Monetary Institute (EMI) was a list of its 192 staff: 61 are Germans, followed by 29 Britons aod 18 Frenchmen.

The German influence in this organisation is not only evident in the staffing but has made itself felt in the drafting and presentation of yesterday's timetable for progress towards the single European currency.

The Bundesbank, which has been pressing bard for a long period of preparation ahead of the start of the single currency, appears to have prevailed in its key demands.

The most significant German concern in the transition was to keep the D-Mark as legal tender for as long as possible – until the new Ecu notes and coins are in full circulation (July 2002).

The Bundesbank's demand also related to the dealing among banks and between banks and the Bundesbank, an issue on which the Bundesbank chose to pick a fight with the European Commission.

The Bundesbank's position is partially a reflectioo of Germany's banking system. There are more tban 9,000 banks, including countless local savings banks, which view the transition to the single currency with trepidation. They want as much time as possible to adapt.

The Bonn government has voiced the same concern, especially in view of the difficulties that Germany's local and state autborities would have in switching over their massive financial operations.

Yesterday's timetable has given the D-Mark a stay of execution until the summer of 2002 and the apparent German victory shows the strength of its negotiating position vis-à-vis its EU partners.

The weakness of German public support for a single currency is being used by the Bonn government to argue that it has no room for manoeuvre. The surprisingly positive response elsewhere in Europe to the "stability pact" proposed last week by Mr Theo Waigel, the German finance minster, is another case of Bonn discovering Emu's political possibilities.

The stability pact is a euphemism for a draconian regime of fines on countries that fail to meet the Maastricht deficit criteria after 1998.

The proposal has found support in France, in the European Commission, and even with Mr Alexandre Lamfalussy, president of the EMI, who yesterday confessed to supporting the principle.

Germany is not only determined to win the debate over stability and the transition arrangements, but it is likely to prevail witb its proposal over the name of the new currency, which Mr Waigel wants to call "Euro" plus the name of eacb member's national currency, as in Euro-Mark.

The Bundesbank has already started to prepare the groundwork for the next big debate, which relates to the monetary instruments available to the new central bank and the conduct of monetary policy.

Mr Hans Tietmeyer, Bundesbank president, bas warned against a system based entirely on open-market operations, since this would distort competition, at least in the German banking system. Every German bank, irrespective of size, has direct access to central bank funds, a principle be aims to enshrine under a central European bank.

This would effectively mean a policy similar to the Bundesbank's discount and lombard policy. Following on from the Bundesbank's own experience in monetary policy, Mr Tietmeyer also recommends a money supply target.

If the Bundesbank gets its way, the result will be a central bank based in Frankfurt and presiding over an ultra-hard currency, whose name, at least in Germany, will have the word "Mark" in it.


Alexandre Lamfalussy, head of the European Monetary Institute

Italy worries 'wise men' of Bonn

By Michael Lindemann in Bonn

Introduction of the European single currency should be postponed until after 1999 if too few countries fulfil the criteria for joining it, an expert panel of economic advisers to the German government said yesterday.

Professor Herbert Hax, the chairman of the five leading economics professors – known as the "five wise men" – refused to be drawn on how many countries they felt would make an acceptable start to economic and monetary union (Emu).

But the group's annual report on the state of the German economy expressed concern in particular that Italy, a founding member of the European Union, might be unable to meet the convergence criteria for Emu in time.

Italy's public sector debt, et 125 per cent of gross domestic product, far exceeds the 60 per cent ceiling set out in the Maastricht treaty.

On the domestic economy, the report forecast that growth would slow to 2 per cent next year, down on earlier forecasts. Last month, the six leading German economic institutes forecast growth of 2.5 per cent.

> 'If too few countries qualified for Emu, the decision should be postponed until after 1999'

But most of the "wise men's" comments focused on the prospects for Emu. They warned that failure to introduce a single currency would be a setback for the EU. Prof Hax said it would dent popular expectations about the EU and raise donbts abont its future. A decision to go ahead with a singla currency could only be made early in 1998 on the basis of final economic figures for 1997, which would reveal bow many countries would qualify for monetary union, the economists said. If too few countries qualified, the decision should be postponed until after 1999.

They did not say what they meant by too few countries but pointed ont that economic statistics for this year suggested that only Luxembourg would qualify for membership.

It is the only country which has a budget deficit under 3 per cent of GDP – another of the criteria which must be met for membership of the single currency. The report went on to say that German wage increases – which are running at about 4 per cent this year – bad been "surprisingly" high and would, together with the lasting strength of the D-Mark against the dollar, continue to hold back the performance of Germany's companies next year.

It said the level of capital expenditure by German companies was far too low for this stage in the economic cycle if a broad economic recovery was to continue.

The Federation of German Industry (BDI) said the report highlighted the problems of high corporate taxes and collective wage bargaining. "It must finally be understood that Germany has to adapt itself to the economic parameters in other countries if jobs are to be kept in Germany and new ones are to be created," the BDI said.

SPD fails to find one voice on Emu

By Peter Norman in Mannheim

European economic and monetary union did not merit a word in the keynote address of Mr Rudolf Scharping, the leader of Germany's Social Democratic party, at his party's Congress in Mannheim yesterday.

But the issue, which in the past two weeks has raised the profile of the embattled opposition party after months of internal feuding, was soon bringing life to the meeting and showing its capacity to split the delegates.

Mr Gerhard Schröder, the prime minister of Lower Saxony, was unrepentant for having raised the planned replacement of the D-Mark by a single European currency as a national issue.

Citing yesterdey's report from the Bonn government's economic advisers – the "five wise men" – he said their suggestion that Emn might have to be postponed showed that there should be a national debate about tbe single currency.

Countering charges that to question Emu was to retreat into old-style nationalism, Mr Schröder said it was not nationalism to care about the welfare of the German people and Emu was a question that would affect them all.

However, many delegates did not share Mr Schröder's views. Mr Dieter Schulte, head of the German trade union federation, the DGB, said the unions had no worries about Emu or the European Union.

Ms Christa Randzio-Plath, an SPD member of the European Parliament, said the debate in the party over Emu had damaged its reputation as a party which swore by its international and European traditions.

She defended the Maastricht treaty having procedures to prevent countries running excessive deficits and so undermining Emu.

The SPD, she said, should concentrate on forcing the government of Chancellor Helmut Kohl to answer its compreheosive parliamentary questions about Emu, which are meant to clear up uncertainties among the electorate about the project, rather than play the nationalist card.

Japan's bad bank loans put at £235bn

By Gerard Baker in Tokyo

Japanese banks' problem loans totalled Y37,390bn (£235.8bn) at the end of September, more than 5 per cent of their total lending, the country's finance ministry said yesterday. The figure represents the most detailed analysis yet of the scale of the bad debt problem at Japanese banks.

Its publication marked the latest attempt by the authorities to ease international concerns about the health of the financial system, following a spate of bank collapses and disclosures of huge losses at Daiwa Bank in September.

The figure is not significantly different from an estimate of Y40,000bn made by the ministry earlier this year, a total regarded as a significant underestimate by many international observers. The latest calculation was based on e much more detailed examination of the accounts of all financial institutions, and the ministry expressed confidence the new figure was correct.

"This is the latest and most accurate estimate of banks' problem loans," said Mr Sei Nakai, a finance ministry official.

He acknowledged that if Japan followed US accounting practices, the figure could be around 10 per cent higher. The estimate did not include some bad loans at agricultural co-operatives, nor those among life assurers.

The report showed that, after subtracting loan loss provisions and the likely value of collateral, total bad loans not et present provided for was Y18,290bn, a figure equal to nearly four times banks' recent everage annual operating profits.

Among various categories of financial institutions, tha trust banks were revealed to have the greatest problems. Over 11 per cent of their total loans are now designated non-performing. For leading "city" or commercial banks, the figure is just under 5 per cent.

The report demonstrated once again the inadequacy of reporting standards in Japan. Among the 21 largest banks, disclosed non-performing loans are put at Y12,971bn.

The ministry's estimate is that the true figure is more than Y23,000bn.

The difference arises because banks are only required to declare as non-performing those loans made to bankrupt borrowers or on which no interest has been paid for more than six months.

They have not been required individually to disclose so-called restructured loans, on which interest has been reduced to keep a borrower from insolvency, though the anthorities will require some banks to reveal those figures by next March.

Openness viewed as the best policy

Japan decides to detail the full horror of banks' loan books, writes Gerard Baker

The truth, it is said, will set you free. It is not a principle that has been widely applied by Japanese financial institutions in the last few years. But with the finance ministry's latest report yesterday on the health of the country'a banks, it seems that it may at last be winning some converts.

The ministry has been working overtime in recent months to reassure domestic and international investors. Yesterday lt produced its most exhaustive and credible analysis yet of the banks' problems.

In the last three months the collapse of several smaller institutions and the revelations of massive losses at Daiwa, one of the larger ones, have increased nervousness about the stability of the banking system.

Worse, the limited disclosure requirements for Japanese banks have heightened fears that the problems could in fact be even bigger than estimated. That nervousness has been reflected in the emergence of a premium on Japanese banks' borrowings in international financial markets.

The leading banks and the finance ministry itself believe that concern has been exaggerated and has led to some banks being punished unfairly in international credit markets. The premium, which has been easing somewhat, stood yesterday at 25 to 30 basis points (1 basis point is 100th of a percentage point). But it is widely acknowledged that banks themselves bear some of the responsibility for that difficulty by not fully disclosing their financial problems.

Japanese deposit-takers: the loan headache

(Ybn at end September, provisional)

	Lending total	Problem loans: Bankrupt or past due loans	Problem loans: Restructured	Loan loss reserves
City banks	274,513	8,058	5,036	4,179
Long-term credit banks	54,529	2,116	1,854	1,038
Trust banks	61,480	2,797	3,499	950
Regional banks	184,583	5,496	2,239	1,868
Co-operative instits.	129,108	5,963	332	1,516
TOTAL	704,313	24,430	12,960	9,553

Source: Ministry of Finance

Hence the attempts yesterday to spell out in detail the problems of the banking sector in the area of greatest concern – the welter of non-performing assets accumulated during the continuing slide in asset prices after the end of the "bubble economy".

The figures released were aggregate totals by categories of banks. The lenders are not individually required to reveal anything other than e small proportion of their problem loans – those to bankrupt borrowers and those in arrears by more than six months. They are still not required to reveal restructured loans – where interest rates have been cut to keep a borrower solvent, though that is set to change.

The ministry issued an earlier estimate for the entire banking system that all problem loans added up to about Y40,000bn (£245bn), including restructured loans, at the end of March, more than 35 per cent greater than the previously disclosed figures. Still the figure was widely dismissed by foreign analysts in Tokyo as an underestimate.

But yesterday the ministry reaffirmed the results of its calculations. It said non-performing loans at the end of September were about Y37,390bn, 5.3 per cent of total loans, rather less than some of the independant estimates of up to twice that figure. It was slightly below the estimats for March although it now excludes loans et the three institutions that have gone bankrupt since the ministry issued its last report.

Mr Sei Nakai, e senior ministry official, denied suggestions that the figure was mnch higher. Even if the strictest US disclosure standards wsre epplied, he said, and some other loans not counted in the ministry's definition were included, the total would still come to no more than about Y45,000bn.

On detailed examination the ministry'a figures seem both comprehensive and more reliable than its last estimate, part of which was an ednc ated guess. The new numbers are based on actual figures reported by banks themselves. But they will not completely allay international concern.

The overall figure is the total estimate for problem loans. Banks have already provided for, or written off, a proportion of that number; it is likely they will recover a part of the remainder. The residual is the new non-collectible figure – or the likely additional cost to the banking system of the problems. Earlier in the year the ministry estimated that the figure was between Y10,000bn and Y15,000bn. Yesterday it said the correct figure was Y18,289bn. At recent levels of operating profit the avsrage bank would take et least another four years to clear its bad loans without the help of special sales of other assets.

Second, ths emergence of considerable differences among financial institutions will increase concerns ebout some banks even as it eases worries about others. Among the main categories of banks, the ministry's figures clearly demonstrate that ths country's six trust banks, which specialise in activities such as pension fund management, have big problems. Some 11 per cent of their total loans are now non-performing. It is highly probable that soms of them will soon require external aupport, though lt is still not clear where it will come from.

That divergence in asset quality will become even more visible later this month when some of the bigger and stronger banks break ranks with their weaker colleagues by voluntarily disclosing the full details of their own problems. The move will represent a mark of the frustration felt by some of them that they have been lnmped together in the collective consciousness of international markets with the weakest of the banks. But their decision to break free will only exacerbate problems for those banks that do not come clean.

Last, the figures themselves may not be quite as reliable as the government hopes. They have been compiled directly by the ministry from the country's banks, but some observers will still be sceptical. The crises of the last few months have revealed that many banks havs heen far from open in revealing the true scale of their problems to the authorities.

In all, yesterday's attempt at openness marks another step on the long journey to resolving the problems for banks as a whole. But the minsitry will be well aware that its immediate effect may be to intensify the pressure on thoss already struggling to stay on the path.

Murdoch finds lair in Sydney for Fox

By Nikki Tait in Sydney

Sydney moved a step closer to acquiring its first big film studios yesterday, when the New South Wales government disclosed details of an agreement to lease a large tract of public land to Mr Rupert Murdoch's 20th Century Fox. It said the 40-year lease would be signed "in the next few days".

If this goes ahead, Fox plans to build a A$120m (£56m) studio and entertainment complex on the 29 hectare Sydney Showground site, about a mile from the city centre.

The studios will occupy at least a third of the site, and the accompanying antertainment complex will cover another three or four hectares. Government officials say they expect around 800 permanent jobs to be created.

The transaction is already surrounded hy controversy. Shortly after it was announced yesterday, several hundred protesters gathered outside the state parliament for a pre-arranged rally. "Fox by name, fox by nature," read their placards – testimony to the lack of regard which some Australians have for their best-known business export.

Ms Clover Moore, an independent state MP whose constituancy covars tha Showground area, told the rally the deal would remove an important public amenity from a residential area. She also questioned why tha government should be providing favourable terms to Mr Murdoch, given his News Corporation group's resources.

The government does not deny that Fox has been offered incentives. According to Mr Bob Carr, state premier, Fox will pay rent of A$2m a year (or 5 per cent of gross takings, if higher) from 1999 onwards.

The state government will also fund a A$32m slte clean-up with an incentive package worth just under A$8m, made up of land tax, payroll and stamp duty concessions. Ths government argues that the project's benefits justify the concessions.

ASIA-PACIFIC NEWS DIGEST

Seoul to reduce chaebol links

The South Korean government plans to speed economic reforms in an ettempt to break corrupt links between business and state, Prime Minister Lee Hong-koo said yesterday. The move is e response to a growing scandal involving a $650m (£413m) slush fund amassed by former President Roh Tae-woo, who has confessed the money was donated by the country's leading conglomerates or *chaebol*. Mr Roh, like his predecessors, used the government's dominant role in the economy to extract contributions from business in return for state support.

Reforms could include abolition of government soft loans to industry and strict application of fair trade rules limiting growth of the *chaebol*. New rules on corporate accounting and better tax enforcement may be introduced to prevent the *chaebol* from hiding funds, while efforts will be made to discover secret bank accounts held by them.

Under the reforms limits may also be placed on political donations. Mr Lee admitted that "economic reform poses a dilemma for the government. It needs to strengthen its role [in the supervision of corporate activity] and at the same time drop restrictive rules" to reduce state intervention in the economy.

John Burton, Seoul

HK capital flows put at £51bn

Hong Kong has recently generated the world's sixth biggest flow of capital, according to figures compiled by the Hong Kong government to estimate gross national product for 1993. Inward and outward flows of investment income amounted to HK$626.9bn (£51.4bn), putting Hong Kong behind the US, Japan, Britain, Germany and France. In 1993, the difference between inflows and outflows of capital was positive at HK$9.9bn.

This made Hong Kong's GNP, which includes external capital transactions, slightly larger than its gross domestic product. Mr Simon Ogus, economist at SBC Warburg, said it was not surprising Hong Kong saw such large flows of capital. He said that 1993 was "a huge" year for investment in Hong Kong. "My guess is that if you look at it now, GNP would be smaller than GDP."

Simon Holberton, Hong Kong

Pakistani officers 'planned coup'

A group of Pakistani army officers, under arrest for allegedly planning a military coup, wanted to eliminate senior army and civilian leaders and impose "a self-styled *Sharia*" (Islamic law), the Senate in Islamabad was told yesterday. Mr Aftab Shaban Meerani, defence minister, claimed the group planned to kill Prime Minister Benazir Bhutto, President Farooq Leghari, and the top military leadership. The major general said to have led the attempt was to become chief of the army staff and *Amirul momineen* (commander of the faithful), the minister said.

Farhan Bokhari, Karachi

Gunmen kill Indian airline chief

The managing director of India's largest private airline has been shot dead by unidentified gunmen on e Bombay street. Airline officials said as many as 14 bullets were fired at the car of Mr Thakiyudeen Abdul Wahid, East West Airlines' managing director, at a crossing in Bandra, a suburb in India's commercial capital.

His elder brother Nasser is the chairman of the airline, which was formed when India began liberalising air travel after its economic reform programme began in 1991. The airline has a fleet of 10 Boeing 737s. The gunmen who carried out the ambush were waiting in a van at an intersection near the company's headquarters.

Reuter, Bombay

Asian banks in pacts to boost market intervention powers

By Ted Bardacke in Bangkok and Simon Holberton in Hong Kong

The central bank governors of Indonesia, Malaysia and Thailand will meet Hong Kong officials in the colony next Monday to sign agreements aimed at improving their ability to intervene in currency markets.

Central bankers said the "landmark" meeting underlines a trend towards co-operation among east Asian central banks.

Monetary officials from the three south-east Asian central banks will sign bilateral repurchase agreements with the Hong Kong Monetary Authority, and among themselves.

These "repos" will enable each participant to raise US dollars from its counter-party against its holdings of US government securities, enabling participating central banks to raise cash without liquidating their securities holdings.

Central bankers hope they will form the basis for agreements covering most east Asian countries, including Australia and New Zealand. Also in attendance at Monday's meeting will be representatives of the central banks of Australia, Japan, the Philippines and Singapore. These countries could agree a further set of bilateral deals as the grouping develops.

Mutual help is common among Europe's central banks, the US and Japan, but this is the first time such agreements have been struck in Asia. "The agreements are designed to enhance liquidity and liquidity assistance in the time of emergency," an Asian central bank official said.

Another official said thet after signing with the other central banks, his country would have up to an extra $1bn (£636.9m) with which to ward off the unwanted attentions of currency traders. The amount was not large but underlined the region's commitment to work together. "This is a message to speculators: if they want to go against one currency they'll have to take on the whole region."

The nsad for greater co-operation among central banks in Asia was highlighted at the beginning of the year when Asian currencies became the object of market speculation in the wake of the Mexican peso crisis.

At the initiative of the Hong Kong authorities, the central banks of Indonesia, Malaysia, South Korea, Singapore and Thailand met in January to discuss ways of defending Asia'a currencies against such speculative attacks. Monday's signings are the direct outcome of this meeting.

Asian central bankers said they had come to the realisation over the past year that stable currencies were in the common interest of countries in the region. This goal was more important than using the currency to compete in exports and inward investment. The realisation is likely to help those who want to see east Asia develop an institutional framework for co-operation.

Recently Mr Bernie Fraser, governor of the Reserve Bank of Australia, said Asia needed a regional version of the Bank for International Settlements, the Basle-based bank for central banks.

The executive meeting of east Asian central bankers, a Bank of Japan initiative which comprises the deputy governors of Australia, China, Indonesia, Japan, South Korea, Hong Kong, Malaysia, the Philippines, Singapore, New Zealand, and Thailand, could form the basis of such an institution, he added.

China's president urges Pyongyang to resume inter-Korean talks

Jiang cements ties with Seoul

By John Burton in Seoul

China's President Jiang Zemin yesterday endorsed Sonth Korea's recent criticism of Japan, while suggesting North Korea should drop its hostile attitude toward Seoul by resuming inter-Korean talks.

The display of Beijing's diplomatic support for Seoul occurred during Mr Jiang's visit to South Korea, the first by a Chinese head of state since the two countries established ties in 1993.

China's closer ties with Seoul follow growing bilateral economic co-operation. China is South Korea's third-largest trading partner and the leading country for Korean investment. The Chinese backing is welcomed in Seoul, whose recent links with Japan and North Korea have been tense.

In response to recent statements by Japanese politicians epparently seeking to justify Tokyo's former colonial rule of Korea, the Chinese and South Korean leaders said Japan must fully come to terms with its history of "aggression" if it wants to improve ties in the east Asian region.

North Korea may sign a contract for the supply of light-water reactors from a US-led international consortium by the month's end, South Korean officials said yesterday, John Burton writes. The US last year promised the reactors in return for Pyongyang abandoning its suspected nuclear weapons programme. But the contract has been delayed by North Korean demands that the consortium provide related facilities for the reactors.

In e compromise solution, the contract will include two South Korean-built 1,000MW reactors and construction of roads and harbour facilities for developing the reactor site at Sinpo on North Korea's east coast.

North Korea has dropped demands for power transmission facilities, a nuclear fuel reprocessing plant, and a training simulator. Pyongyang will pay for the estimated $4.5bn (£2.86bn) project over 25 years after a seven-year grace period.

South Korea's President Kim Yonng-sam yesterdey demanded Japanese officials should stop making "outrageous" statements ebont Japan's colonial rule in Korea between 1910 and 1945.

Mr Jiang said "Japan must have a correct understanding of the pains its militarists had inflicted on the Chinese people" if its wants better relations with Beijing.

In an attempt to mend worsening relations with Sonth Korea, Mr Tomiichi Murayama, Japan's prime minister, yesterday wrote to Mr Kim apologising for Japan's colonisation of Korea, the foreign ministry in Seoul said.

During an address to the national assembly, Mr Jiang appeared to press his North Korean ally to drop its boycott of talks with South Korea by saying that problems on the Korean peninsula can only be solved through dialogue that will enhance mntual trust.

China hopes to be a mediator in settling any inter-Korean disputes because of its good relations with both Seoul and Pyongyang. Chinese foreign ministry officials accompanying Mr Jiang said.

The rest of Mr Jiang's trip to South Korea, to end on Friday, will mainly cover developing economic ties. Beijing wants South Korean companies to boost their investmants in China, now totalling almost $2.3bn (£1.5bn).

Mr Jiang told the National Assembly "our two economies are strongly complementary", with China being able to offer scientific research and advanced technology that South Korea lacks.

China and South Korea have already established joint programmes for aircraft development, nuclear power plants, telephone switching systems, high-definition television, and car components.

Some have made little progress. A proposed Sino-Korean regional airliner has been delayed by disputes over the location of the final assembly plant and how production will be divided. Officials admitted yesterday the disagreements remain unresolved. Mr Jiang plans to tour Samsung Electronics' semiconductor facilities and Hyundai's car and shipbuilding units.

See Japan in Asia Survey, separate section

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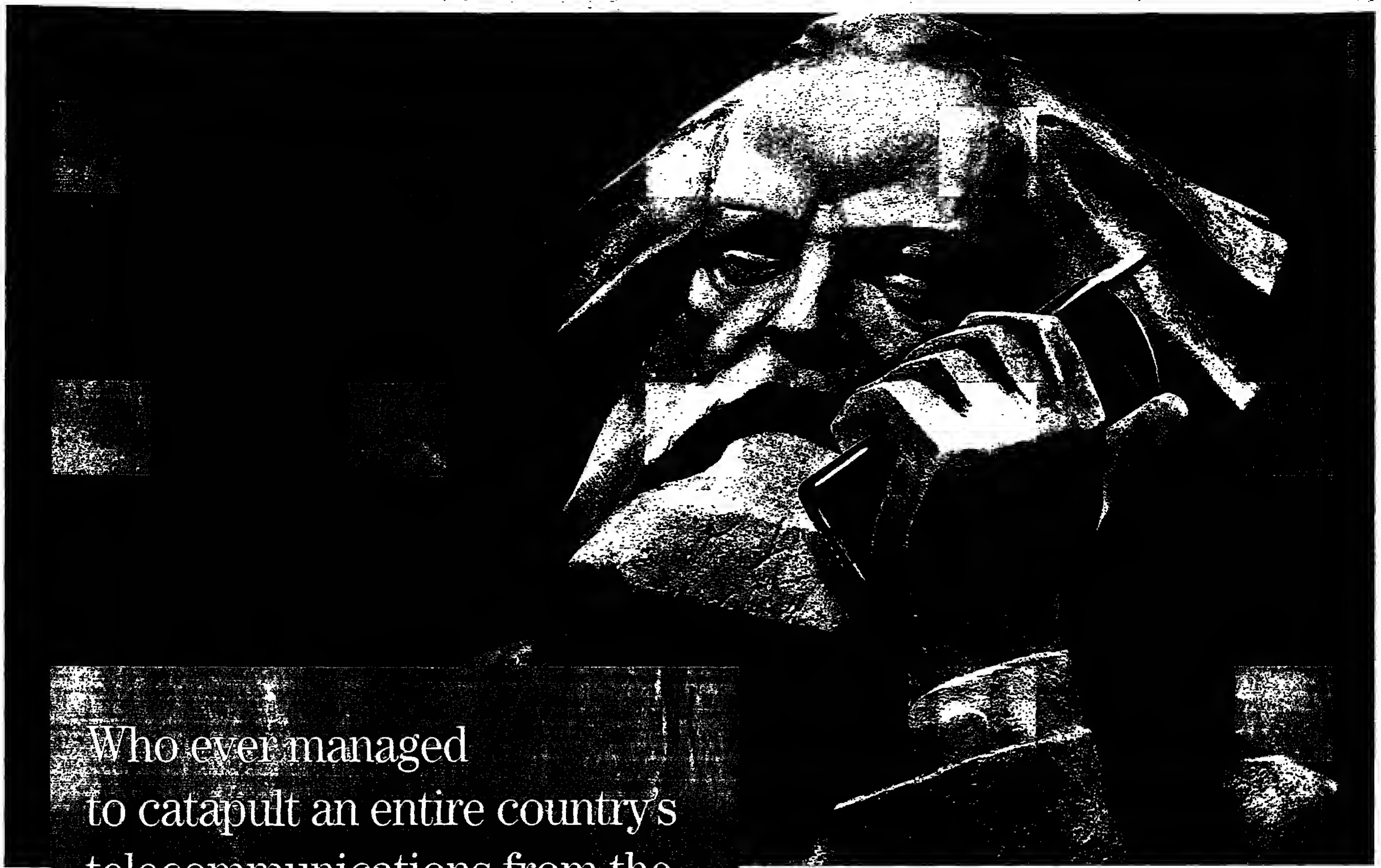

Who ever managed to catapult an entire country's telecommunications from the Stone Age into the future?

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The ultimate test of a company's performance and ingenuity is when it faces seemingly insurmountable tasks. Unquestionably, the toughest assignment in the history of telecommunications has fallen to Deutsche Telekom. In the new German federal states, we have set up what must today be the world's most high-performance telecommunications infrastructure in record time.

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By 1997, Germany's new federal states will have the most advanced telecommunications infra-*structure in the world. Who would have believed it back in 1990?*

With the Wall gone, we still had another to scale.
It was a daunting, almost depressing prospect. The telephone system was still largely a relic of the twenties. Only one in ten homes was connected. Public telephones were a rare sight, fax machines in even shorter supply and mobile phones non-existent. Companies had virtually no means of data communication whatsoever. This desolate landscape cast a shadow over hopes of any rapid transformation to a market economy, let alone short-term economic upswing, for the former East Germany. This was a "national emergency".

The leap into the age of high-tech.
Engineering a state-of-the-art infrastructure out of nothing was a pretty unique undertaking in the world of telecommunications. But we did it. We built a network of super-speed highways, complete with new digital switching systems and no fewer than 5,3 million new connections to date. That's more than during the period between 1871 – the year the first telephone rang in Germany – and the collapse of the Berlin Wall. The basic blanket infrastructure for data lines, ISDN, mobile communications, radio and television is now almost complete. As the world's leader in the field of fiber optics, we'll be linking up 1.2 million homes in Eastern Germany this year with the latest in advanced communications technology.

In fact, we did the job so well that many other countries, notably those in the former Eastern Bloc, are looking to harness the vast experience, organizational skill and technological power of Deutsche Telekom in setting up their own networks.

Deutsche Telekom now a stock corporation.
At the beginning of this year, Deutsche Telekom made the move from public to stock corporation. This not only allows us greater freedom to keep pace with the rapid developments in the market but also to forge ahead with technological innovation even faster and more effectively for our customers. Today, Germany boasts the world's most advanced fiber-optics network and the highest number of ISDN connections – proof enough of our success.

You can share in our success.
Get to know our products and services tailored to meet your special needs and you'll get to feel the cutting-edge of tomorrow's technology. Come join the fast lane to the future.

Our connections move the world.

Deutsche
Telekom

NEWS: WORLD TRADE

WTO sees rapid rise in global growth

By Frances Williams in Geneva

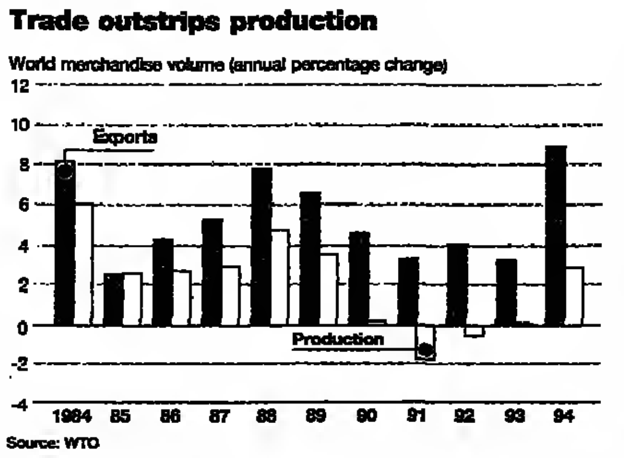
World trade will continue to grow rapidly this year aod next, reinforcing the globalisation of tbe world economy, tbe World Trade Organisation said yesterday.

In its first full report on trends in international trade since its inception in January, the WTO predicts an 8 per cent rise in the volume of merchandise trade in 1995. This is only slightly less than last year's 9.5 per cent rise, itself the fastest for nearly 20 years.

Growth is forecast to slow further in 1996, but to remain above the average of the past decade.

Trade growtb continues to exceed world production growth by a large margin, the WTO points out. This year it could be three times as high and next year close to double. World GDP growth, whicb includes construction aod services, is expected to remain steady at close to the 3 per cent estimated for 1994.

Trade outstrips production



Source: WTO

Between 1950 and 1994 world output rose by about 4 per cent a year and world trade by slightly more than 6 per cent on average. Over the 45 years, output multiplied 5.5 times and world trade 14 times. Furthermore, the gap appears to be widening.

Tbe globalisation of tbe world ecooomy reflected in these fignres brings "far-reaching benefits" through innovation and specialisation, and governments would do well to facilitate rather than hinder the trend to economic integration, the report says.

Developing countries that bave been open to globalisatioo bave grown faster tben tbeir inward-looking counterparts, while deepening trade links appear to bave moderated recessioo in the industrialised world.

Among the main features of world trade in 1994 highlighted by the report:

- tbe value of world mercbandise trade (in depreciated dollars) rose by 13 per cent to $4,090bn, breaching the $4,000bn mark for the first time. Most product groups showed increases of 12-15 per cent by value;
- the valne of exports of office and telecommunications equipment rose faster last year than any other group, with a jump of 22 per cent. Their share of world exports has nearly doubled in the past decade to 11.5 per cent, ahead of mining prodncts and almost on a par with agriculture.
- the value of trade in commercial services increased by 8 per cent after near-stagnation in 1993. This is the second year running that services trade has grown more slowly than trade in goods, a reversal of the pattern in the 1980s;
- developing Asian countries, including China, expanded services trade by 17 per ceot in 1994, more than twice the world average.

Collectively, their trade in services outstrips Japan's, the world's biggest net importer of services. Hong Kong has become the largest exporter of commercial services outside the OECD area;

- most regions experienced rising output and trade last year, with a strong economic recovery in western Europe, accelerated growth in Asia, North America and Latin America, and the beginnings of economic revival in eastern Europe. However, Africa's trade growth, while positive, was weak. Middle Eastern trade declined.
- east Asia and central and eastern Europe starred as the most dynamic trading regions last year. Mr Renato Ruggiero, WTO chief, said yesterday that this trend had continued in the first half of 1995.
- the 15 biggest traders – the main OECD countries and tbe Asian developing economies – account for roughly 70 per cent of all trade in both goods and services.

Exclnding intra-EU trade, the EU is the world's largest exporter of goods and services, followed by the US and Japan.

Negotiatlons oo China's longstanding application to join the World Trade Organisation will resume in Geneva on December 7-8, according to Mr Renato Rnggiero, WTO director general, writes Frances Williams.

Speaking at a press conference to launch the WTO's first report on international trade yesterday, he said the negotiations had made some progress "but we still have a very difficult road in front".

During membership talks in July, Beijing appeared to show a new flexibility on snch issues as state trading rights.

Nevertheless, Mr Mickey Kantor, US trade representative, said last month that China had so far failed to meet "even the minimum criteria" for entry.

In contrast to the tortuous Chinese experience, Russia's WTO application has made smoother headway. Mr Ruggiero said yesterday he was confident of progress when the membership working party reconvenes in December.

Mr Ruggiero also said he would be going to Africa in January, to see how the WTO could help the region integrate more fully into the international trading system.

US hints it wants to give Phoenix wings

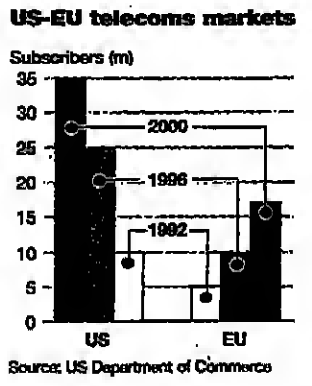
Alan Cane reports on the chances of the proposed telecoms venture flying past Washington regulators

Tbe US Federal Communications Commission hopes to rule by the end of the year on the proposed alliance between Sprint, tbe third largest US long-distance carrier, and Atlas, a joint venture between Dentscbe Telekom and Fraoce Télécom, according to Mr Reed Hundt, FCC chairman.

Mr Hundt sald the ruling would be a two-stage process. Neither stage would be specifically about tbe alliance between Sprint and Atlas, code-named Pboenix, but would set out the general principles the commission would follow in ruling on Phoenix and similar alliances.

Pboenix was earlier this year given qualified approval by the US justice department. The three companies plan to create a "global supercarrier" able to compete for the lucrative international business of multinational companies against AT&T, British Telecommunications and MCI, the second largest US long haul operator.

US-EU telecoms markets



Source: US Department of Commerce

THE COMPETITIVE EDGE OF US TELECOMS

Company	Revenue per employee ($000s a year)
MCI (US)	383
Sprint (US)	216
AT&T (US)	213
NTT (Japan)	196
Cable & Wireless (UK)	163
GTE (US)	149
TEF (Spain)	147
Bell Canada	143
STET (Italy)	136
British Telecom	120

Source: Economic Strategy Institute

Atlas was given tbe green light by Brussels last month after the French and German governments agreed to open alternative infrastructures – telecoms networks operated by ntilities – to competition earlier than planned.

FCC approval is expected to be more difficult. Tbe first stage, expected at the FCC's December 7 meeting, will be a decision on the extent of foreign ownership of US telecoms companies, at present limited to 25 per cent in direct and indirect investment.

Mr Hundt suggested last week that the US would be willing to waive restrictions on foreign ownership for companies from countries with telecoms markets judged to be as open as the US.

As part of Phoenix, Deutsche Telekom and France Télécom have each agreed to take about a 10 per cent share in Sprint. The two European companies are to pay $4.1bn for 20 per cent of Sprint, whicb could recoup a lot of its outlay on cellular licences through the deal. Mr Hundt said the French and German investments would take the aggregate ownership of Sprint 1 per cent above the existing ownership limit: "Our role is to approve or disapprove of that foreign ownership".

The second part of the deal involves the international carriage of telepbone calls. Under existing rules, the FCC would be unlikely to allow Phoenix to operate in the US because the core voice services sectors of the French and German markets are closed to US companies.

Mr Hundt said: "We hope to have an order that lays out the way, in concrete terms, that we can think about market access and reciprocity. The order would be a general, abstracted order that could apply to any company. That will give us the ability in the days thereafter to come to a decision ebont Sprint consistent with that ruling."

Mr Hundt declined to be drawn on how the FCC might solve the conundrum of allowing Phoenix to operate in the US market before voice services are liberalised in France and Germany. This is unlikely before January 1998, the date set by the EU for liberalising voice and data services.

There is no doubt, bowever, that although the FCC has been using Sprint as a lever to speed the liberalisation of the French and German markets, it is anxious to see Phoenix fly. It can see the advantage of a big equity infusion in Sprint for domestic competition reasons.

In March this year, Sprint Telecommunications Ventures, a joint venture between the telecoms company and three cable television groups, Tele-Communications, Comcast and Cox Cable, spent $2.1bn on personal communication services licences in 29 US markets in an FCC auction.

At the same time, local US telecoms markets are going to be opened to competition from long-haul carriers. The implication is that the Sprint/cable consortium will be competing in fixed wire services, wireless services and long-distance operations. An equity infusion from France Télécom and Deutsche Telecom would support Sprint's ability to compete on such a broad front.

WORLD TRADE NEWS DIGEST

Honda plans Brazil car plant

Honda, the Japanese vehicle group, is expected to announce next month it will set up a new car plant in Brazil, adding to the list of leading car producers which have announced plans to invest there. The announcement is expected to be made by Mr Nobuhiko Kawamoto, Honda's president, on his visit to Brazil on December 6-7.

No details have been given about the size or location of the proposed new investments, but Mrs Dorothea Werneck, the Brazilian trade and industry minister, said the government welcomed the move. Honda already manufactures motorcycles at Manaus in the Amazon where it benefits from special free trade regulations. Until the imposition earlier this year of 70 per cent tariffs on imported vehicles, Honda's compact Civic was one of the best selling imported cars in Brazil following its local market debut in 1992.

Honda's decision follows recent announcements by Renault of France and Hyundai of Korea to set up new car plants in Brazil. Existing manufacturers such as Volkswagen, Seat and Ford have announced substantial new investment projects to increase their capacity in the country. *Haig Simonian, Brasilia*

ECGD to fund Turkmen deal

The British Export Credits Guarantee Department (ECGD) yesterday announced its first financing deal in central Asia since the break-up of the Soviet Union. It is underwriting e $31.5m loan to help pay for the upgrading of Turkmenistan's Ashgabat airport by an Anglo-Turkish joint venture.

The loan by Barclays Bank will help finance the contract won by John Laing of the UK and Alarko Alsim to undertake phase II of the Ashgabat airport project, started when the region was under Soviet control.

The $85.2m contract awarded by the National Civil Aviation Authority of Turkmenistan is for the design and construction of a second runway, able to accommodate large aircraft, including Boeing 747s. The contract also includes the installation of modern airport systems allowing the airport to operate to international standards.

The contract for phase I of the project, involving the construction of a new terminal building, was completed by Laing and Alarko Alsim in October 1994. Phase II, due to be completed by August 1997, has been given a high priority by the Turkmen authorities who are keen to boost the country's external trade and encourage foreign visitors.

The ECGD, Britain's official export credit agency, announced in May last year that it would be prepared to provide cover for British companies competing for projects in Turkmenistan. *Andrew Taylor, Construction Correspondent*

Contracts and ventures

■ Siemens of Germany and PT Trafindo Perkasa of Indonesia have formed a venture to prodnce fibre-optic cables.

Siemens will invest approximately DM23m ($16.5m) to set up a fibre-optic cable factory to produce around 70,000km of fibre-optic cabling annually. *AFX News, Munich*

■ Eurorail, the European transit equipment division of Canada's Bombardier, will build 66 railcars worth C$180m (US$133m) for France's SNCF. They will be made in the Crespin plant near Paris. *Robert Gibbens, Montreal*

■ CAE, the Canadian electronics group will develop Orion patrol aircraft simulation equipment worth C$13.5m for AWA Defence Industries, Australia. *Robert Gibbens, Montreal*

■ Chilean shipping group Compania Sud Americana de Vapores has signed a $850m joint venture agreement with Norway's Kristian Gerhard Jebsen Skipsrederi to buy seven ships. *Reuter, Santiago*

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If you want to smoke who should you ask?

Someone in the same room?

Or someone who isn't?

With courtesy and consideration, smokers and non-smokers can and do work it out for themselve

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NEWS: THE AMERICAS

President is defiant as partial federal government shutdown begins

Clinton firm over budget impasse

By Jurek Martin in Washington

The Clinton administretion and Republican Congress were talking to each other again yesterdey following tha partial shutdown of the federal government, but there was no sign of a breakthrough in their impasse over the budget.

Mr Robert Rubin, the treasury secretary, Mr Leon Panetta, the White House chief of staff, and Dr Alice Rivlin, the budget director, conferred with a bipartisan congressional team headed by the respective budget committee cbairmen, Senator Pete Domenici and Congressman John Kasich.

But Congresaman Newt Gingricb, the Speaker, said on television that the deadlock could only be broken if President Bill Clinton said be was "willing to have a balanced budget in seven years".

If he did, Mr Gingrich said, the Republicans were prepared to withdraw the increase in Medicare premiums attached to the temporary government funding bill Mr Clinton vetoed on Monday night.

That offer received a dusty response from Mr Clinton at a Monday night meeting in the White House with Mr Gingrich, Senator Bob Dole, the majority leader, and other congressional leaders.

Yesterday, Mr Mike McCurry, the presidential press spokesman, said it was apparent from that session that the position of both sides was "pretty mnch frozen". Congressional Democratic participants predicted no early end to the confrontation.

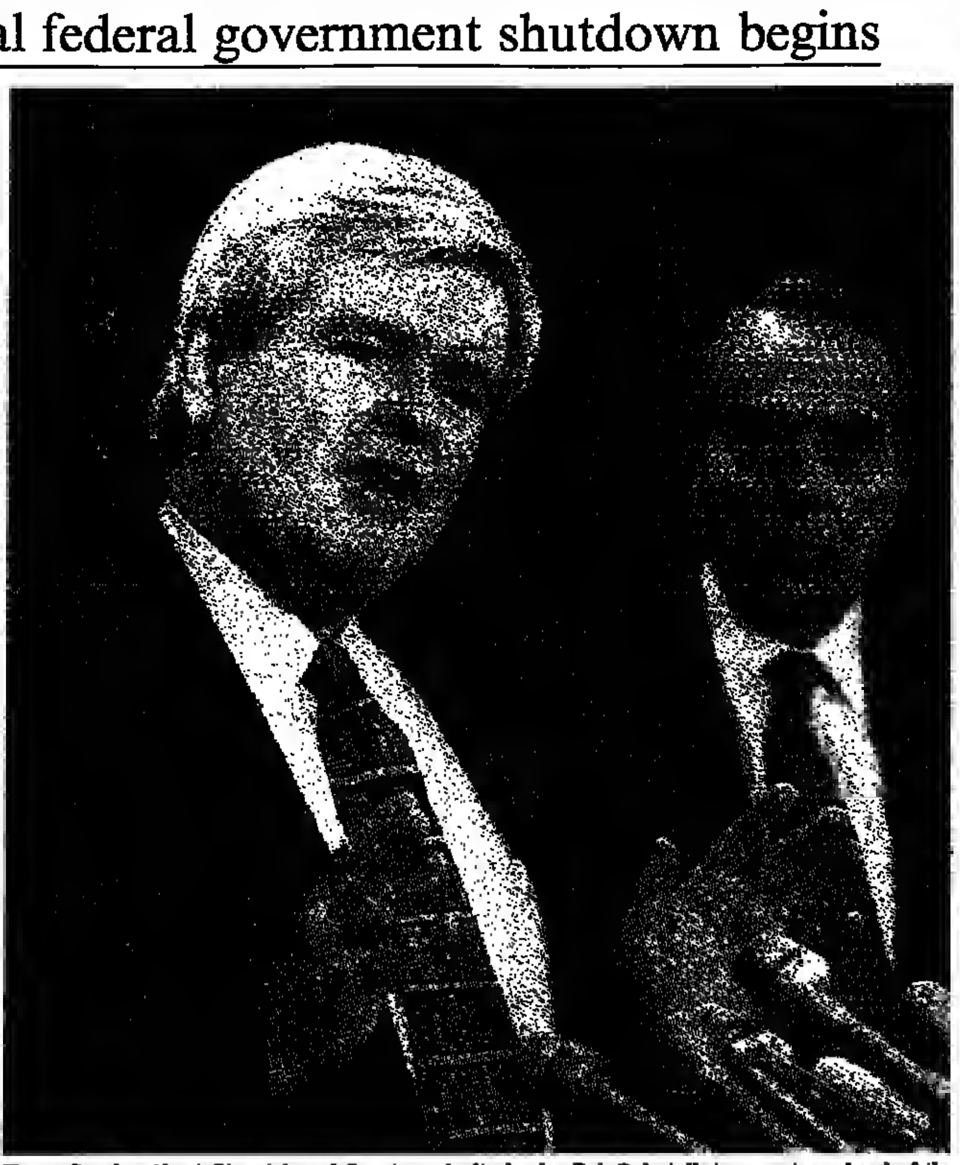
However, there were glimmers of differences between Mr Dole, with e long history of political compromise, and Mr Gingrich, wbo seems determined to extract from Mr Clinton a formal commitment on the balanced budget before entering serious negotiations.

Mr Domenici, who is close to the majority leader, managed to incorporate in the Senate bill a temporary freeze on bigher Medicare premiums. This was insufficient to deter a presidential veto but wes enough to get Mr Panetta and Dr Rivlin back up on Capitol Hill yesterday.

Mr Gingrich, however, continued to insist that his Republican freshmen in the House could brook no budget compromise and he would not impose one on them. He also predicted that Congress would pass this week an overall budget reconciliation bill that would satisfy his most conservative supporters.

The reconciliation bill combines regular annual appropriations with the tax cuts and reforms of the social safety net tbat form the heart of the Republican legislative agenda. But this week, Mr Clinton has said he will veto both welfare reform and the overall bills whenever they reach his desk.

He did sign a third appropriations bill on Monday night covering 1995-96 spending principally for the energy department. But that leaves 10 bills as yet unsettled by the Congress.



House Speaker Newt Gingrich and Senate majority leader Bob Dole talk to reporters ahead of the federal government sbutdown Reuter

Breast implant makers offer $3bn to US victims

By Richard Waters in New York

A group of US manufacturers has made a new offer to settle lawsuits from women who have had silicone breast implants, marking the latest attempt to resolve the country's biggest product liability case.

The offer, which could be worth as much as $3bn (£1.9bn) if it is accepted by all the women who are eligible, follows the collapse of an earlier $4.25bn settlement, which covered a far larger group.

Unlike the earlier offer, the latest compensation plan does not apply to women outside the US. Instead, these people will now be left to pursue their cases individually through the courts, or to take part in what may turn out to less attractive local compensation schemes.

The offer was made by four former implant makers – Baxter International, Bristol-Myers Squibb, 3M and McGhan Medical – and one manufacturer of silicone gel, Union Carbide.

The latest plan does not include customers of the biggest implant maker, Dow Corning, which filed for bankruptcy earlier this year.

The companies continued to insist yesterday that silicone implants do not cause the connective tissue, rbeumatic or other illnesses that have been blamed on them. Studies undertaken in the US have failed to establish conclusively that leaks from implants have caused these illnesses, though critics claim that much of this research has been funded by the manufacturers and so tended to come down in their favour.

Under the new settlement, women will be given the choice of accepting an immediate payment of between $10,000 and $100,000, based on their current medical condition, or being paid up to $250,000 over the next 15 years, depending on what illnesses they develop.

The original plan was intended to pay benefits ranging from $100,000 to $2m, with an overall ceiling of $4.25bn. That deal collapsed after a far larger number of women than expected filed claims, leading to drastic reductions in the amount of cash available to each woman. The companies backing the new offer claimed that it would provide more cash for each recipient than would have been available under the scaled-down benefits of the old scheme.

The new plan would not have a ceiling on the amount that could be paid, and would no longer be dependent on acceptance by a large proportion of the implant recipients.

Mexican budget presented as peso weakens further

By Leslie Crawford in Mexico City

Mr Guillermo Ortiz, Mexico's finance minister, presented the 1996 budget to Congress yesterday against a backdrop of nervous trading on the financial markets and a further weakening of the peso.

The Mexican currency opened trading at 8.05 to the dollar, 3 per cent below Monday's close and one of its lowest points of the year. The peso's weakness caused interest rates in the money markets to shoot up to almost 80 per cent a year, almost 50 points above their levels in September, when the peso was stable and the outlook for the Mexican economy was more optimistic.

The peso strengthened later on renewed central bank intervention. The currency has lost more than 25 per cent of its value against the dollar since September. Last Thursday, the Bank of Mexico stepped in to defend the currency when it reached an all-time low of 8.30 to the dollar.

Although trading is thin, the peso's volatility has caused exporters and companies to withhold their dollars, compounding the downward pressure on the Mexican currency.

Mr Ortiz'a presentation held few surprises. He has designed a balanced budget, in which expenditures will rise by a modest 1.9 per cent and government income will fall marginally because of the loss of tax revenues resulting from Mexico's deep recession.

He said the economy was expected to grow by at least 3 per cent next year, spurred by another strong performance from the export sector and a recovery in public and private-sector investment.

Exports, which account for more than one-third of gross domestic product and have grown by more than 30 per cent this year, are expected to forge ahead by another 19 per cent in dollar terms in 1996, according to the finance minister, and will account for almost two-thirds of Mexico's economic recovery next year.

Monetary policy will remain tight to bring about a fall in inflation from 50 per cent this year to 20.5 per cent in 1996. The minimum wage will be increased by only half tha level of next year's inflation, implying the government expects to see another drop in real incomes next year.

The current account of the balance of payments, which will post a negligible $215m deficit this year, is expected to show a $1bn deficit in 1996, equivalent to 0.3 per cent of GDP. Financing is not expected to be a problem, as Mexico's debt servicing next year will cost $8.9bn, compared with the unprecedented $41bn paid out this year.

This year's heavy amortisation schedule included the repayment of some $29bn of Tesobonos, the dollar-pegged, short-term Treasury bills which brought Mexico to the brink of default earlier this year. Mr Ortiz said he expected $5bn of foreign direct investment in 1996, a figure which does not include income from privatisations.

"This is a very prudent budget," said Mr Diego Bravo, a partner at financial consultants Grupo Moneda in Mexico City. "The problem is, will the markets believe it? A prolonged bout of instability in the financial markets could derail the government's best laid plans."

US retailers await weak Christmas

By Michael Prowse in Washington

Official figures indicating sluggish retail spending last month were seen yesterday as raising doubts about the strength of the Christmas sales season – the most important period for retailers.

The Commerce Department said retail sales fell 0.2 per cent last month, following a revised 0.1 per cent gain in September. Most Wall Street economists had expected that sales would decline by about 0.1 per cent.

Ms Diane Swonk, a senior economist at First National Bank of Chicago, said the Christmas aeason was likely to be the weakest since 1991, when the economy was emerging from recession.

Confidence was still quite strong but high consumer debt burdens would inhibit spending, she said.

Sales of cars rose 0.7 per cent last month, following a dip in September. But nearly all other sectors were weak. Sales of building materials fell 0.4 per cent from September in spite of an upturn in the housing market. Sales of clothing fell 2.4 per cent from September.

Excluding cars, overall sales were down 0.5 per cent.

Many economists believe economic growth is slowing following an unexpectedly robust third quarter wben gross domestic product expanded at an annualised rate of 4.2 per cent in real terms. With little evidence of upward pressure on inflation, the Federal Reserve is expected to cut interest rates modestly, but not until Congress and the White House reach agreement on a budget deal. No move is expected at today's meeting of Fed policymakers.

American News Digest

Violence breaks out in Haiti

Seven people bave been killed in Haiti in three days of pro-government demonstrations which became violent as civilians tried to disarm suspected supporters of the former military regime.

The violence followed the funeral at the weekend of Mr Jean-Hubert Feuilla, a legislator who was sbot dead in e street. President Jean-Bertrand Aristide, his cousin, spoke angrily at the funeral, attacking agencies which "obstructed peace" in Haiti.

Known supporters of the former military administration were ettacked and beaten by demonstrators.

Canute James, Kingston

Republican set for governorship

Republican Mike Foster is heavily favoured to become governor of Louisiana in an election on Saturday that is expected to solidify growing Repnblican dominance in the south.

His Democratic opponent, Mr Cleo Fields, a member of the US House of Representatives, made history last month as the first black to qualify for e Louisiana run-off election for governor. But pollsters say the only way he can win is if blacks vote in record numbers while whites stay at home.

Increasingly in the once solidly Democratic south, whites are voting Republican while the Democratic party is supported only by blacks and a small number of white liberals.

Recent polls show Mr Fields with only 13 to 18 per cent of the white vote. One poll last week showed Mr Foster, a state senator who recently switched parties, 26 points in the lead.

Reuter, Baton Rouge

'Prophet' on bomb charges

An anti-government "prophet" and three others were charged with plotting a series of bombings against targets such as US abortion clinics, welfare offices, gay bars and two prominent civil rights organisations.

Ray Willia Lampley, 65, his wife, Cecilia Lampley, 47, and John Dare Baird, 58, were ordered held without bail until a hearing tomorrow.

The three, arrested by FBI agents on Saturday at the Lampleys' home in Vernon, 90 miles east of Oklahoma City, are charged with conspiracy to manufacture and possess a bomb.

The case is not connected to the April 19 bombing of the federal building in Oklahoma City, authorities said.

AP, Muskogee, Oklahoma

Bolivia wins applause for its capital idea

Sally Bowen charts the progress of an alternative privatisation programme now at its half-way stage

It has taken its time but, at the half-way stage, "capitalisation" – Bolivia's unusual method of divesting itself of state-owned assets – is proving more successful than most observers had expected.

"Initially, this was a process which enjoyed very little credibility, at bome or abroad," admits Mr Alfonso Revollo, capitalisation minister. "The multilaterals [lending institutions] were sceptical too."

But with three of the six state companies scheduled for transfer to "strategic partners" already disposed of, Bolivia's experience is coming to be seen as an interesting and effective alternative to straight privatisation.

Instead of auctioning off state-owned companies to the highest bidder, Bolivia has been offering a controlling 50 per cent holding in selected concerns to an investor who will inject fresh capital into generally run-down companies. Bidding follows a pre-qualification process where potential partners' credentials are scrutinised.

In late June tha Bolivian state electricity company Ende blazed the trail. Seven international consortia, a couple with local partners, bid for three separate generation units. The winners – Dominion Energy, Energy Initiatives and Constellation Energy, all US-led consortia – paid a total of $212.5m for half the equity and now in effect control 90 per cent of Bolivia's electricity generating capacity.

September saw an encouragingly high offer from Stet of Italy for Entel, Bolivia's international and national long-distance telecommunications monopoly. Stet'a $610m bid for 50 per cent of Entel was almost four times the company's book value.

Then, in mid-October, the Bolivian flag-carrier Lloyd Aereo Boliviano (LAB) went to Brazil's VASP airline for a mix of cash and new additions to the elderly fleet. The VASP package was valued at $47.5m for 49 per cent of the shareholding: more than double the book value, say officials.

Strongly-unionised LAB has been the toughest transfer so far, according to Mr Edgar Saravia, capitalisation secretary. "We had to be flexible and accept planes as part of the offer," he said. "And they are a real contribution. The new [Boeing] 757 is now a national asset: it belongs in part to all Bolivians."

Herein lies the psychological novelty of Bolivia's divestiture approach. But Bolivians will reap tangible benefits too. Via e new pensions law, due to be presented to congress next January, remaining state share in the capitalised companies will be deposited in individual accounts for each adult Bolivian, some 3.2m in all.

Funds will be managed by three private pension fund administrators, to be selected by international tender. On reaching an as-yet unspecified retirement age, Bolivians will be able te cash in their fund or draw a pension for life from it.

Capitalisation officials are reluctant to predict the cash amount each pension book will start off with, bnt, as aome offers are exceeding expectations, it is likely to be between $600 and $1,000. Opinion surveys show that, by and large, once-suspicious Bolivians are warming to the idea of becoming shareholders in half a dozen businesses: more than 94 per cent of Ende and Entel amployees took up their chance of buying shares in the new privataly-managed operations.

Although the aystem means no cash-in-hand for the state, it avoids the kinds of problems experienced in neighbouring Peru. There a wide-ranging and largely successful privatisation programme has garnered more than $4bn in revenue since late 1992.

Nevertheless, and despite legal provisions which require privatisation proceeds to be spent on poverty alleviation, the bulk of the money remains as part of Peru's now-substantial international reserves, on deposit at safely low interest rates abroad. Lack of institutional infrastructure to channel funds into projects and the potentially inflationary effect of stepping up local spending have pre-empted full extension of benefits to the population et large.

If Bolivians are somewhet closer to seeing personal financial advantages from capitalisation than Peruvians, there remains a sturdily-entrenched minority opposing the process. COB, Bolivia's diehard trades union confederation, though weakened, is gathering its forces for a last-ditch ettempt to prevent the capitalisation of state oil and ges company YPFB.

YPFB is the largest and most politically sensitive of the six on the capitalisation list. It is being offered as five separate companiee, two upstream exploration and production units, three for transport marketing and service.

A new deregulatory hydrocarbons law, designed to create competitive conditions for investors in the sector, will be presented to Bolivia's congress before the end of the year and capitalisation completed by March, Mr Revollo hopes. Data rooms containing all the necessary information for the 35 companies which have already pre-qualified to bid opened in the provincial cities of Cochabamba and Santa Cruz two weeks ago. Several more are expected to join the list of potential bidders.

Meanwhile, energy ministry officials are lobbying potential large investors and making presentations to the Bolivian armed forces, which still have some influence in Bolivian politics, on the implications of capitalising what is still widely percaived aa a strategic resource.

Government officials are well aware of the need to have capitalisation concluded by the middla of next year. From then, a year before 1997 Bolivian presidential elections, political campaigning will paralyse any further prospects of innovative reforms.

Violence-weary Algerians prepare to vote

Told they must, threatened if they do, many are frustrated at the lack of alternatives, writes Roula Khalaf

When President Liamine Zeroual makes his entrance to the Coupole sports stadium in Algiers, two hours later than scheduled, it is packed. Thousands of high school students, veterans of the war of independence and "sons of martyrs" have been bussed from all over the country to hear the presidential candidate on the last day of his election campaign.

The young people, waving Zeroual banners, dance furiously to the patriotic songs of Warda, the revered Algerian singer and Arab idol. With passionate nationalistic slogans evoking the war of liberation and attacks on Islamists who preach "miracle" solutions, Mr Zeroual stirs the chanting crowds.

"Algerians have been classified as eradicators, reconciliators, Islamists, but I say no to this classification. We are Algerian above all," he says. "The army, the people, are all with Zeroual," the crowds cheer.

The first round of the election on which the army-backed Algerian government has staked its national and international reputation takes place tomorrow, nearly four years after it cancelled elections the Islamic Salvation Front (FIS) was poised to win. In the violence that followed, than 40,000 people are estimated to have died, many of them civilians caught between the Islamists and the security forces.

People power: Tomorrow sees the first round of the election Reuter

Few expect this election to produce any surprises. With the army, the administration and the main associations in the country behind Mr Zeroual, the only question is whether the retired general who was called on by the army in January 1994, will win on the first ballot or will have to wait until next month for the second.

Nevertheless, the election is on every Algerian's mind. Leaders of the main opposition parties that won 80 per cent of the vote in 1991 consider it a farce and have called for a boycott. Extremist Islamist groups have warned people to stay away. But many Algerians are expected to cast their votes out of frustration with the violence and the lack of alternatives.

Residents of Algiers are bombarded with appeals to vote. Across the capital posters featuring the picture of a young girl urge people to cast a vote "for my future". Other posters depict women wearing Moslem headscarves next to others in western dress together calling on people to vote.

Because other candidates, albeit mostly pro-government, have been allowed to stand, the exercise has been given some legitimacy in the eyes of voters. Although their chances of winning are slim, the three other candidates seem to be taking the poll seriously, shuttling from one gathering to the next across the country.

To ensure the election is conducted in safety and so that the government can argue it is free of intimidation, a massive security campaign has been staged. Four classes of reservists have been called in to help. Traffic is being monitored and the entrance to the capital is virtually sealed off.

An eerie calm has reigned in Algiers in the past few weeks, although newspapers are reporting bomb attacks and killings elsewhere in the country.

Threats will still scare away some voters. "How can I vote?" asks Fateh, a young waiter. In his popular neighbourhood of Bab el Oued, the Armed Islamic Group (GIA), fighting the government and terrorising the population since 1992, puts up posters after midnight warning voters they will end up in coffins.

"A friend of mine registered to vote and the terrorists came for him the next day," he says. They killed him.

But he is not sure he can afford not to vote either. When he sought to get proof of residency for a sports club application recently, a local council official asked him to produce his voter registration card.

Unless extremist Islamic groups mount significant attacks in the early hours of tomorrow, many Algerians say they will take a chance and ignore the boycott calls. While some, especially those in the bureaucracy and the state enterprises, may feel under pressure to vote, others say they will vote because they are willing to do anything that might bring an end to the violence.

"All I care about is that the violence ends," says Jaafar, an electrician in his 40s who voted for the FIS in the first round of the legislative elections in 1991. "Maybe if we give legitimacy to Zeroual he might be able to do something about the violence. It cannot go on forever."

For many of Algeria's voters – the government says the number of registered voters is 16m, about 2m more than the figure cited just a few months ago – Mr Zeroual's personal appeal and clean reputation put him on the good side of a regime they distrust.

The boycott by leading parties – the FIS (which, though banned, could have endorsed a suitable candidate from another party), the former ruling National Liberation Front and the Berber-based Socialist Forces Front – appears to be working in the government's favour. Their absence is shifting the traditional nationalistic vote Mr Zeroual's way while the government is taking the opportunity to promote smaller parties which support its attempts to demonise the FIS as well as discredit the secular opposition that support its rehabilitation.

Two parties in particular are being promoted. One is Hamas, a moderate Islamist party despised by FIS leaders for having, among other things, agreed with the cancellation of the 1991 poll. Mr Mahfond Nahnah, its candidate, is expected to capture at least some of the FIS vote.

The second party likely to emerge stronger as a result of this election is the Rally for Culture and Democracy (RCD), a Berber-based, staunchly anti-Islamist group, which received less than 3 per cent of the electoral vote in 1991.

Ms Khalida Messoudi, the passionately anti-Islamist spokeswoman for the RCD presidential candidate, Mr Said Saadi, tells young supporters that Islamic fundamentalism has lost its appeal in their country. "There is nothing scarier than the FIS," she says. "But we are a people who refuse to be subdued and the FIS refused to understand this."

FBI agents aid inquiry into Saudi terrorist bomb

By David Gardner and
Robert Corzine in Riyadh

The Saudi Arabian authorities yesterday stepped up their investigations into Monday's car-bomb blast in central Riyadh, as agents from the US Federal Bureau of Investigation were due to arrive to help the inquiry into the kingdom's first serious terrorist attack.

The death yesterday of an Indian injured in the attack took the death toll to seven. More than 60 were injured by the bomb which demolished the centre of the Saudi National Guard's communications centre, mostly manned by US military and civilian advisers. The other dead comprised a Filipino and five Americans; seven of the 37 US citizens wounded were yesterday still in a critical condition.

Saudi Islamic fundamentalists remain the main suspects, government officials said yesterday, but other possibilities – on which they refused to comment – were being investigated. Two unknown organisations, the Tigers of the Gulf, and the Movement for Islamic Change – which some have linked to the Islamic Jihad (Holy War) groups in Egypt and Palestine – claimed responsibility for the blast.

The Saudi government has raised the level of security throughout the country and government officials dismissed the possibility of attacks against oil installations.

Some western military officials suspected the hand of Iraq, a sworn Saudi foe since the 1990-91 Gulf war, when the kingdom became the base for the US-led alliance against Iraq. They pointed out that the attack was sophisticated and well targeted, arguing it was beyond the known capacity of the kingdom's fragmented Islamist opposition.

However, the US-manned communications centre was virtually unprotected. Its function and personnel were widely known to local residents who used the car park in front of the building where the bomb was placed to shop in a nearby supermarket. A local businessman at the scene of the bombing minutes after the blast said it was obvious to outsiders when the US servicemen took their lunch-break – the moment of the blast. "They knew when to catch them," he said.

US officials are themselves looking at the vulnerability of communications centre and have warned the 30,000 or so US citizens in Saudi Arabia to re-examine their security precautions and "to be very cautious". Most military installations in the Saudi capital are well fortified.

Riyadh residents yesterday struggled to come to terms with the bombing in the heart of one of the world's most security-conscious capitals. But life quickly returned to normal outside the immediately vicinity of the blast.

Nevertheless, there was concern about the effect of the blast on business and investment. "There will be no business done here for some time," said one expatriate businessman, long resident in the kingdom. A government official echoed this fear: "People will now be wondering whether to invest their money."

The government, for its part, was wondering yesterday whether to let in numerous foreign broadcasting and news organisations, which have asked for generally severely-rationed access to the kingdom following the attack. "This is still under debate," a government official said last night.

INTERNATIONAL NEWS DIGEST

Shell confirms Nigeria project

Royal Dutch/Shell yesterday confirmed its long-term commitment to the oil and gas industry in Nigeria and its investment in the $3.8bn Liquefied Natural Gas project at Bonny, the largest investment project in Africa, despite last week's execution of nine minority rights campaigners.

On the eve of a meeting of the partners in the project, which will be Africa's biggest-ever investment deal, Shell said it did not see why plans to build the liquefied natural gas plant should be abandoned. The company has been under intense pressure to abandon the project in the wake of last week's executions of minority rights campaigner Ken Saro-Wiwa and eight other activists.

Mr Brian Anderson, managing director of Shell Nigeria, said calls for Shell to pull out of Nigeria were " not helpful". "We believe our most useful role is helping Nigeria overcome its economic problems and creating wealth that will give the people of Nigeria a better living standard," he said.

● The Nigerian government has accused Britain and South Africa of a conspiracy to have Nigeria suspended from the Commonwealth at the recent summit and of damaging the country's image. *Foreign Staff.*

Shell feature, Page 16

Derivatives disclosure increases

International banks and securities firms have increased the amount of information they disclose to shareholders about their derivatives businesses, according to a report to be published today by the Basle Committee on Banking Supervision. The Basle Committee was established by the central bank governors of the G10 countries in 1975. The report examines the 1994 annual reports of a sample of internationally active banks and securities firms and assesses the disclosure of their trading and derivatives-related activities compared with practices in 1993.

It says that for the first time a number of institutions provided quantitative information on their exposure to so-called "market risk" – the risk of losses through adverse movements in stock, bond and currency markets. Institutions have also begun to provide information on how they manage these exposures. However, disclosure standards still tend to be patchy with many institutions disclosing "very little information about their involvement in trading and derivatives activities". *Richard Lapper*

Crackdown on Jewish settlers

Dozens of Jewish settlers were indicted yesterday on charges of agitating in the occupied territories, as the government cracked down on rightwing extremists following the assassination of Prime Minister Yitzhak Rabin. Mr Rabin was shot and killed on November 11 by a Jewish extremist, and police suspect the confessed gunman was part of a rightwing conspiracy. Seven people, all religious men in their 20s, are under arrest, including the gunman and his brother.

The settlers indicted yesterday included Rabbi Moshe Levinger, founder of the Jewish settlement in Hebron; Baruch Marzel, who has been under house arrest for more than a year for his fervent anti-Arab views; and Itamar Ben-Gvir, spokesman for the anti-Arab group Eyal. The head of Eyal is one of the seven people arrested in connection with Mr Rabin's murder.

A West Bank police official denied the indictments were part of a crackdown on rightwing extremists. However he confirmed that 29 indictments were issued yesterday and 24 on Monday. *AP, Jerusalem*

NEWS: UK

EDS wins $940m Rolls-Royce systems deal

By Michael Skapinker, Aerospace Correspondent

Rolls-Royce, the aero-engines and industrial power group, is to contract out its information systems to EDS, the computer services offshoot of General Motors of the US. About 750 Rolls-Royce information technology staff will move to EDS. The company was founded in 1962 by Mr Ross Perot, who ran as an independent candidate for the US presidency in 1992.

Under its 10-year agreement, EDS will receive £600m ($940m) from Rolls-Royce, which is separate from the Rolls-Royce car company. The sum could be higher if EDS helps Rolls-Royce achieve improvements in the running of its business. The Rolls-Royce car company is now part of Vickers, the UK industrial combine.

EDS will take over the running of all Rolls-Royce's computer systems, and will establish an *aerospace centre of excellence* at the UK group's site in the English Midlands city of Derby.

The two companies said the agreement would establish a closer partnership than the traditional computer outsourcing arrangement. EDS acquired A.T. Kearney, the management consulting group, earlier this year. A.T. Kearney will assist Rolls-Royce in improving *aspects of its operations.*

EDS said it expected to help Rolls-Royce reduce the time it takes to bring products to market, as well as improve its customer service, manufacturing and engineering.

Mr John Rose, managing director of the Rolls-Royce Aerospace group, said: "We are an ambitious company in a highly competitive environment and we recognise the need to achieve excellence across all our activities. This partnership gives us access to a wealth of understanding of industry best practices."

Mr David Thorpe, managing director of EDS UK, said: "We've identified a number of key areas where we can help them improve their business."

Among the areas where EDS believes it can help Rolls-Royce improve are the integration of the engine design and manufacturing process. EDS says it will also use its computer systems to help Rolls-Royce collect information on airlines' engine servicing requirements. Computer systems will also be used to improve communications with component suppliers.

Industry awaits Ford pay accord

By Robert Taylor, Employment Editor

The outcome of wage negotiations at the UK subsidiary of motor manufacturer Ford will have a strong impact on what other companies will pay their employees over the coming months. The Ford talks are due to resume today.

"Ford retains its image as a leading settlement", Mr David Sbonfield, senior editor at the independent forecasting body Incomes Data Services, said yesterday. The level of the retail price index and the "going rate" remain the most powerful external factors in deciding the level of pay deals. But he believes Ford followed by the rest of the motor industry is still important in setting a wage benchmark for many companies in other sectors.

Ford has so far offered a 3 per cent basic pay rise in response to a union demand for an across-the-board 10 per cent improvement. But the company's bargaining stance is being made more difficult by developments elsewhere in the car industry. Workers at Rover, now a BMW subsidiary, and at Ford's Jaguar offshoot secured 4 per cent wage increases on November 1 as the second instalment in their two-year wage deals. Nissan and Peugeot Talbot will provide similar rises January as part of on-going deals.

There is also some concern over what is likely to happen at the Vauxhall subsidiary of General Motors where the company's 9,000 manual workers are being balloted on strike action after rejection of a 3.5 per cent pay offer. The result will be announced next Monday. Discontent over pay among Britain'a car workers seems likely to be contained by slightly improved offers and these may make a ripple effect across other parts of the labour market but there seems little prospect of any winter wage offensive.

Pay deals have edged up this autumn from a floor in September of an average 3 per cent to 3.5 per cent. But the independent forecasters at Industrial Relations Services believe agreements will remain pegged at that level through at least the first six months of 1996.

A number of companies in different sectors have made bigger deals with their employees, however. These include 4 per cent settlements at GEC Alsthom, Glaxo Operations and Home Express. Marks and Spencer increased its total paybill by 4.75 per cent and Nationwide provide 4.75 per cent to its staff in the form of average merit pay.

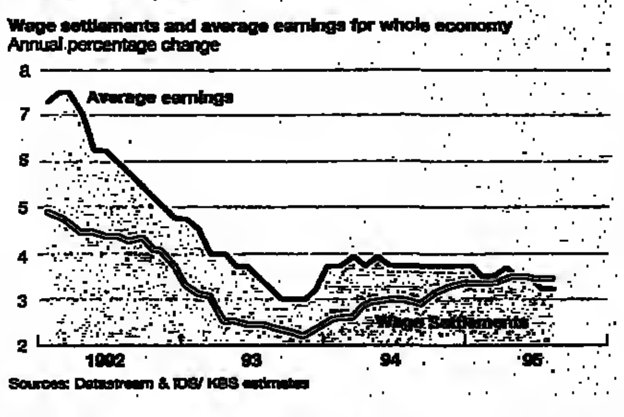
A number of companies outside the car industry have also made forward commitments into 1996 which promise wage rises often higher than the increase in the retail price index. This is true of Iveco Ford, PowerGen, National Power and Scottish and Newcastle, the brewing combine.

IDS has found in signs in recent weeks of anxiety among private companies who have begun to fear rising inflationary pressures could reinforce an upward movement in basic pay settlements. It seems many employers are not yet convinced that the traditional link made by many workers between pay increases and inflation has been broken.

In a study published this week of how employers decide on the level of pay awards, IDS also found that many private companies look to the level of wage deals in the public sector among teachers and national health service staff in deciding their own pay offers increases.

Pay pressures

Wage settlements and average earnings for whole economy
Annual percentage change



Sources: Datastream & IDS/ KBS estimates

Irish peace moves 'could collapse'

By John Kampfner, Westminster Correspondent

Mr Gerry Adams, president of Sinn Féin, the political wing of the IRA, warned yesterday that the Irish peace process was "collapsing around us".

Mr Adams was leaving for the United States, where he is understood to be due to meet Mr Tony Lake, President Clinton's national security adviser, at the request of the US administration.

Washington is becoming increasingly concerned at the braakdown in discussions about the decommissioning of IRA arms. Leaders of fringe loyalist parties are also in the US capital this week for talks.

Meanwhile Mr John Major, the UK prime minister, plans to contact Mr John Bruton, his Irish counterpart, today to inject some "creative thinking" into the stalled Northern Ireland peace process and dispel reports of a rift between the two governments.

Officials said last night Mr Major was not "mesmerised" by the idea of having to arrange a summit ahead of the visit of Mr Clinton to Britain and Ireland later this month.

Bnt Mr Major was understood to be prepared to accept a suggestion that the two leaders meet before Mr Clinton's arrival "if some good can come of it".

Mr Major's reaction to Mr Bruton's implied allegation in a speech on Saturday of British foot-dragging on the issue of all-party talks has been more muted than that of the British government's Northern Ireland Office.

"A sense of a rift has been created in recent days that doesn't exist," one official said. He said the principles guiding the common Anglo-Irish approach had not changed.

Meanwhile, the Rev Ian Paisley, leader of the hardlina anti-nationalist Democratic Unionist party, described Mr Bruton's speech as "arrogant". Mr Bruton had "attacked the whole structure of Northern Ireland", Mr Paisley said.

Mr Paisley said: "We have always held the view that the southern government has no right to any say in the internal affairs of Northern Ireland."

MPs rage at RAF repair contract

By Robert Shrimsley, Lobby Correspondent

The award of a contract for modifying 134 Panavia Tornado aircraft to Airwork in sonth-west England was a "debacle" and a "deplorable incident", the House of Commons defence committee said yesterday.

The affair was "a salutary and timely lesson about the risks inherent in contracting ont snch work", said the committee, which is dominated by members of the governing Conservativa party. Such a strong attack on the government's market-testing programme from a Conservative-controlled body will surprise ministers.

The attempt by the defence ministry to save money on repairs to the aircraft, operated by tha Royal Air Force, cost millions of pounds because Airwork damaged the aircraft, the MPs reported. The Tornados were out of service for three years as a result.

Airwork, since purchased by Shorts, gained the £5m ($7.9m) contract by underbidding by half the nearest rival, British Aerospace. But the cost of the errors could run to £100m.

Work began in September 1992 but was halted after nine months when an RAF technician spotted "significant damage" to the centre sections of the aircraft. Sixteen of the 18 Tornados in Airwork's immediate care had been damaged and needed major repairs to their fuselages.

The ministry has now switched the task to British Aerospace and is seeking full reimbursment from Airwork's former owners, Bricom.

"We expect the ministry to recover in full the costs associated with the recovery programme," the committee said. "It would be monstrous if the taxpayer was out of pocket as a result of this debacle."

The planes were dne to return to service this autumn and the ministry stated that its "operational capability" was unaffected as it always expects to have some aircraft out of commission.

However, the all-party committee noted: "If a different aircraft type had been involved, one where the RAF's inventory is smaller, it would have been a different matter.

Airwork also botched a contract to install an infra-red system to 23 Lockheed Hercules aircraft which forced the RAF to restrict the use of 10 of these long range planes. Again the ministry is *demanding compensation*. A ministry official said the problems with Airwork were "exceptional" and that no further contracts had been awarded to the company.

UK NEWS DIGEST

Finance watchdog praises BBC World Service

The BBC is praised by the National Audit Office, the public spending watchdog, for instilling a more businesslike approach to its World Service operations. The office says the corporation has made "significant strides" since the House of Commons public accounts committee issued a critical report in 1992 on the management of the BBC's budget for transmissions outside the UK. But the office says World Service managers still lack enough accurate data on staffing levels and has made slow progress in measuring workloads.

For the first time, the audit office has calculated the cost of running each of the 41 language services. These range from a high of £2,123 ($3,350) an hour for broadcasts in Ukrainian and £1,859 in Albanian to £254 in German. The overall budget for 1995-96, which is provided by the Foreign Office, is £179m.

As an example of unsatisfactory past practice, the office highlighted a recent case of £4m reserved for a transmitter in Thailand, for which approval did not arrive in time. A decision was then hurriedly taken to use the money on computers and printers which were not needed.

John Kampfner, Westminster

Company drops rail bid

Sea Containers, the shipping, containers and hotels group headed by Mr James Sherwood, yesterday withdrew from the bidding for franchises to run railway passenger services. It warned that the network would be starved of investment. The company, which has been one of the most conspicuous bidders for rail franchises, has been eliminated from the competition for Great Western Trains and South West Trains, two of the three companies in the first tranche of franchises on offer.

"The British government has refused to offer franchise periods long enough to justify capital investment, and without such investment the company can only see a deteriorating rail network," said Mr Sherwood. It also emerged yesterday that the management buy-out team bidding for Great Western Trains has been eliminated from tha bidding. The team, headed by managing director Mr Brian Scott, had been jointly in the running with Resurgence Railways, a newly created company including both rail and non-rail executives. The management, which is backed by FirstBus, a large bus operator, and 3i, the largest UK development capital group, may bid again if Resurgence is rejected.

Charles Batchelor, Transport Correspondent

Governance chief is named

Sir Ronald Hampel, chairman of Imperial Chemical Industries, has been approached to lead the new panel which will follow up the Cadbury committee's examination of corporate governance. He is said to be "99 per cent definite" about the chairmanship of Cadbury 2. Sir Ronald, who took over from Sir Denys Henderson as ICI chairman in April, is seen as one of the UK's most respected industrialists. "He is a great catch if he says 'yes'," one institutional shareholder said yesterday. Sir Ronald is also a non-executive director of British Aerospace, Commercial Union and the Aluminium Company of America. The successor body to the Cadbury committee, known as Cadbury 2, has been hit by delays. An official announcement is now not expected until next month.

William Lewis, London

TV channel is banned

The government has banned XXXTV, the Swedish pornographic satellite television service formerly known as TV Erotica, in the UK. This is the second time the UK authorities have taken action against pornographic TV channels. The first was when it banned Red Hot TV, a Dutch pornography service, in 1993.

XXXTV has been on air since the start of this year. The Independent Television Commission, the broadcasting regulator, made a formal complaint against it to the Department of National Heritage in March arguing that it was harmful to children. Mrs Virginia Bottomley, heritage secretary, has issued an Order making it illegal to manufacture or sell XXXTV smartcards (needed to access the channel) or to supply programming or advertising to it. She said she would not allow television to "deliver a pornographic diet of degradation".

Alice Rawsthorn, Consumer Industries Staff

Record for Land Rover

Land Rover, the four-wheel-drive subsidiary of BMW's Rover group, has produced 100,000 vehicles in a single year for the first time in its 47-year history. The previous record for a full year's output was 1994, when 94,716 vehicles were built. Land Rover, which has taken on 2,000 extra employees and raised output several times since the beginning of last year, is in the middle of a £150m ($237m) investment programme to upgrade manufacturing facilities and prepare for the introduction next year of a model smaller than those now in production.

John Griffiths, Industrial Staff

Schwarzenegger video censored: Film censors condemned the "glamorisation" of violence in many films which become available to children when they are issued on video. The British Board of Film Classification fears that young children are watching violent videos featuring macho role models, which are intended for an older audience. It ordered eight cuts to the video version of *Arnold Schwarzenegger's True Lies* "to remove the most extreme acts of violence by the hero".

هكذا من الأصل

HOW MASTER CRAFTSMEN MAKE PATEK PHILIPPE A LEGEND OF OUR TIME.

From the time the world's first Guild of Master Watchmakers was founded in Geneva nearly four centuries ago, our city has been the undisputed capital of fine watchmaking. Ever since 1839, from one generation to the next, master craftsmen have enjoyed a privileged environment at Patek Philippe. In fact, Patek Philippe has been almost a guild itself, attracting the most accomplished and forward-thinking designers, watchmakers, goldsmiths, chainsmiths, jewellers, enamellers and engravers.

Today, Patek Philippe is the world's only complete watchmaker still capable of perpetuating all of these time-honoured crafts, setting a standard consistent with Geneva's reputation. For only the skilled and sensitive hand of the master craftsman can create, shape, polish and assemble mechanical components into a fine precision instrument.

Now, come spend a few moments with us to discover more about some of the master craftsmen behind Patek Philippe watches.

The designer combines avant-garde concepts with motifs that are Patek Philippe legacies. As he gives substance to an idea, he respects the values that endure from one century to the next. He makes hundreds of drawings until he captures a design that represents the artistic ideals of the age.

Patek Philippe ingenious watchmakers, such as our world authority on chiming and repeating watches, are often referred to as 'the men with the golden hands'. Scores of other rare skills are kept alive in our master watchmakers' talented hands, from balance poising to the building of the Calibre 89, the world's most complicated pocket watch.

Our goldsmiths adhere to the traditions of one of the oldest decorative arts, bringing together the skills of a jewellery maker, case maker, jewel setter and polisher.

Is it an illusion, you may ask, that the delicate tracery of a gold bracelet could be so supple, yet so strong? It's the magic of the chainsmith's art. Each bracelet is created entirely by hand. Each is one of a kind.

Our master jeweller is steeped in the great Geneva tradition of gemmology and further trained in Patek Philippe's own ideas of beauty and value. The brilliance of his work on the dial of a dress watch quietly reflects perfection.

The art of painting an enamel miniature on the cover of a pocket watch requires skills that only a few artists continue to practice today. We still decorate a bespoke pocket watch to meet the expectations of the most discerning collectors.

With tools handed down over the years, the master engraver creates a certain lustre and brilliance, especially when depicting movement or light on water. Only one or two enchanting scenes are created each year.

But there is yet another dimension to our story of master craftsmanship. Throughout its 155-year history, Patek Philippe has consistently distinguished itself by its pace-setting research, development and engineering, where many pioneering ideas take shape. In fact, Patek Philippe's influence in defining the evolution and progress of modern watchmaking is a legend in itself.

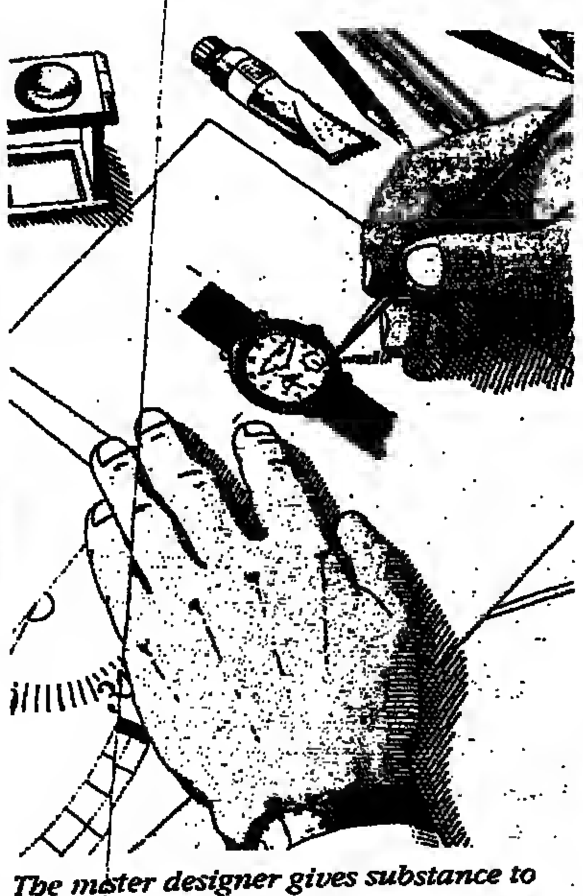
We were awarded our first patent in 1845, and as our master technicians set new standards of watchmaking in their quest for perfection, the list of patents continues to grow.

Our respect for the highest values of watchmaking tradition, creativity and perfection combined with the most advanced technological thinking will be passed on dutifully to future generations of Patek Philippe watchmakers far into the Third Millennium.

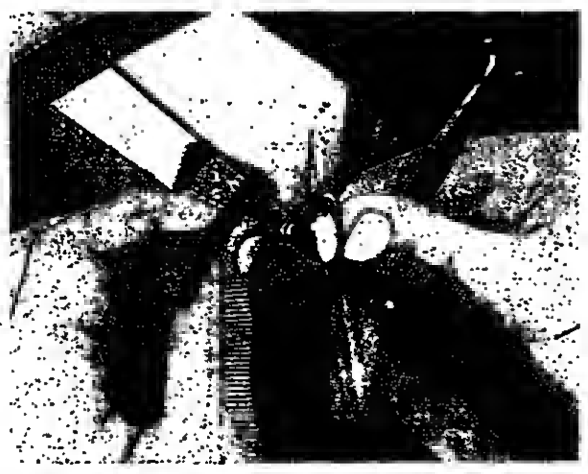
Perhaps that is why we are often called 'the guardian of Geneva's great tradition of horology'.

A Patek Philippe masterpiece, respected and treasured from generation to generation.

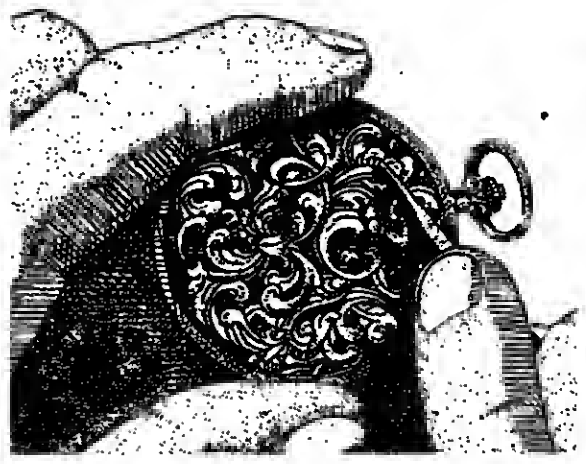
Its destiny is to be a legend.



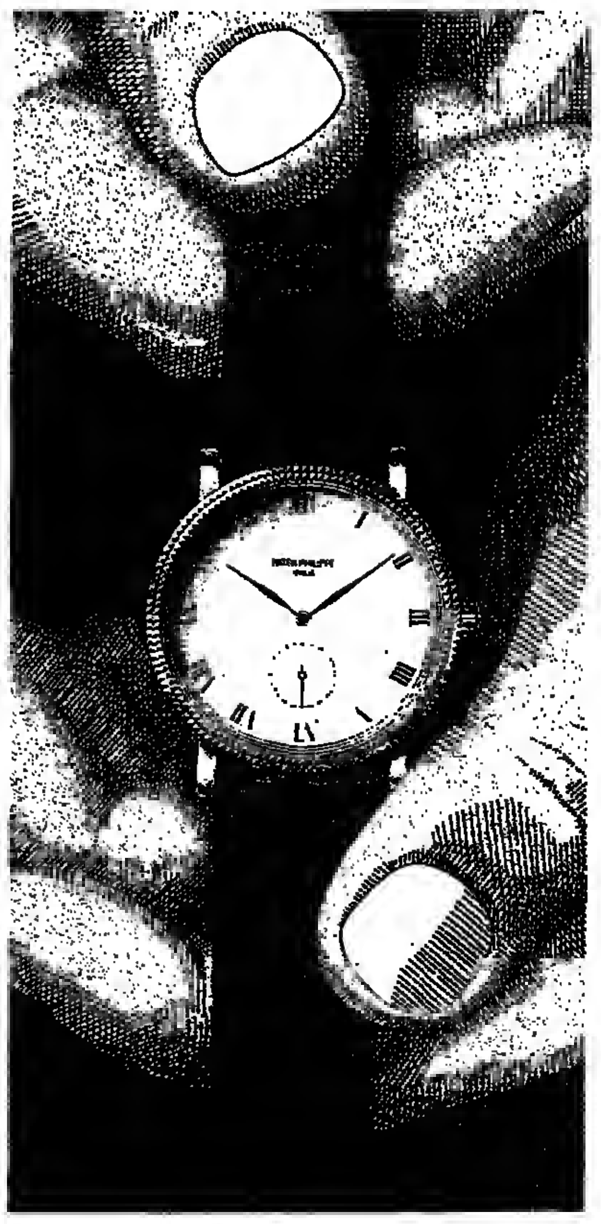
The master designer gives substance to an idea that says something about the enduring values of Patek Philippe.



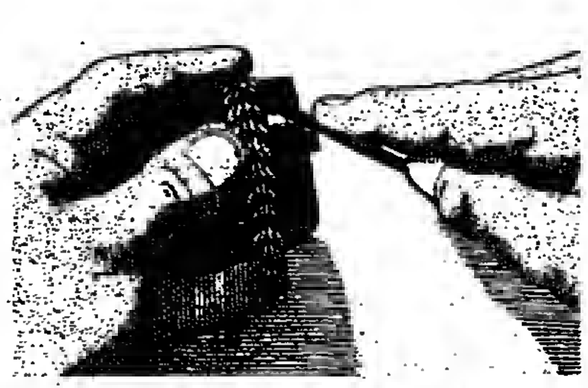
The specialised skills that were once the pride of Geneva's goldsmiths are kept alive in Patek Philippe's workshops.



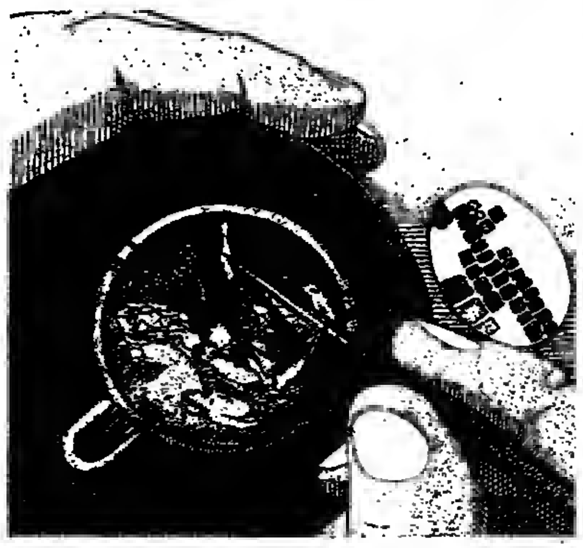
Engraving the cover of a millimetre-thin pocket watch cover requires skills that are almost forgotten.



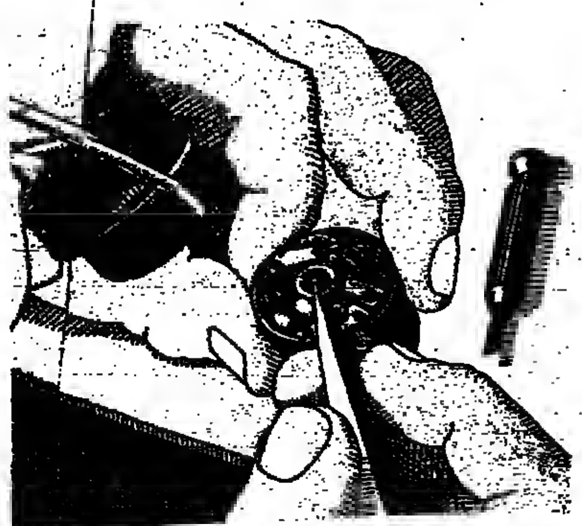
The hand of a master craftsman alone can shape, polish and assemble the mechanical components of a perfectly functioning precision instrument.



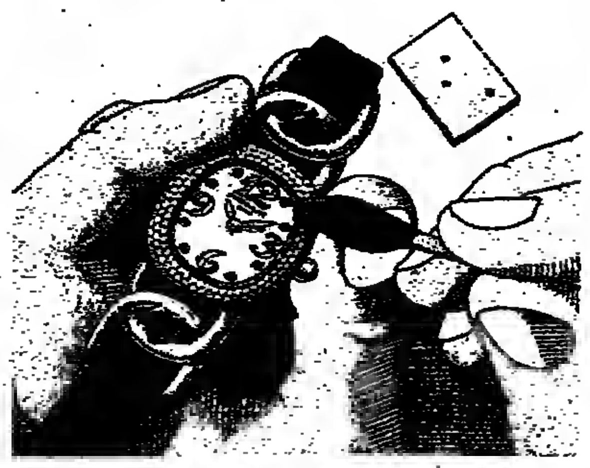
The chainsmith gives the most delicate tracery of a gold bracelet remarkable suppleness and strength.



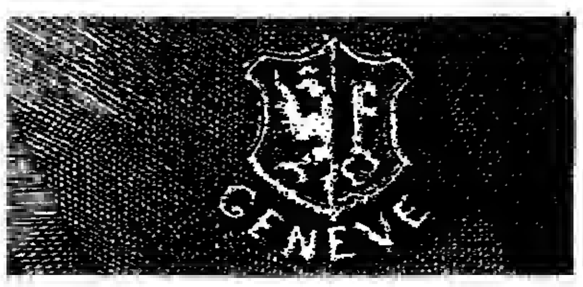
A miniature masterpiece in enamel takes six months of dedication. Almost all of the world's remaining enamellers work in Geneva for Patek Philippe.



Patek Philippe's 'complete watchmaker', a title reserved for the legendary élite of their craft, meticulously finishes each part of a movement by hand.



The jeweller reveals his skills in the way he perfectly integrates each gem in its environment of precious metal.



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NEWS: UK

Inward investment Region produces 35% of PCs made in Europe ■ More Taiwanese companies may follow Chung Hwa

Taiwan hi-tech group seals big factory deal

By Alan Cane in London and James Buxton in Edinburgh

The investment of £260m ($408.2m) over the next four years by Chung Hwa Picture Tube – a subsidiary of one of Taiwan's largest electronics organisations – is the biggest single investment by a Taiwanese company in Europe.

The plan to build a manufacturing facility in Scotland will create 3,300 jobs and was claimed by the British government yesterday to be the UK's largest-ever inward investment in terms of employment.

In addition to the 3,300 jobs at the plant itself a further 1,100 jobs may be created indirectly. The government also hopes other companies including some from Taiwan will move to Scotland to supply Chung Hwa. Ministers hope a glassworks might be established to supply the CRT plant.

Mr Michael Forsyth, chief minister for Scotland in the British government, said that the project would help to lay the spectre of the job losses caused by the closure of the Ravenscraig steelworks in 1992.

The factory is to be built on a 37 ha site close to the Mossend Eurocentral rail freight terminal south-east of Glasgow and not far from Ravenscraig. It will manufacture cathode ray tubes (CRTs), the picture elements in television sets and computer monitors. When completed in four years, it will have the capacity to produce 10m tubes a year.

Mr Charles Yu, Chung Hwa's European manufacturing director, said the company planned to begin construction early next year with the first two lines coming on stream in 1997.

He said about 60 per cent of the investment would go to manufacturing machinery and equipment. Much would either be made by Chung Hwa or sourced from other manufacturers in Asia.

He said it was essential to develop expertise in CRT technology in Scotland. The company would invest heavily in training, sending recruits to Taiwan and Malaysia where it has four factories.

The battle for the plant was won against competition from inward investment agencies in Ireland and France, while in the UK Chung Hwa also considered sites in north-east England and Wales.

Mr Forsythe said the package included generous financial incentives and grants but refused to give a value: "It is a very large number, but it is a very large project". He would not comment on suggestions that the total financial incentive for Chung Hwa to come to Scotland could be some £90m.

Chung Hwa, established in 1970 and a subsidiary of Tatung, one of Taiwan's largest electronics companies, is the world's largest manufacturer of CRTs with a 32 per cent share of the market for colour picture tubes in 1994. Its competitors include Hitachi of Japan and Philips of Holland.

Cathode ray, or picture, tubes *are a basic component in both* the television and computer businesses, Alan Cane writes. Some 123m colour tubes were produced last year for television sets worldwide; some 18.2m of them in Western Europe.

They will remain the principal form of computer display despite the encroachments made by flat-panel displays of the liquid crystal display or electroluminescent variety. The market for CRTs is expected to grow at about 10 per cent annually over the next few years.

But there have been few producers in Europe. They have included Thomson of France, Philips of the Netherlands and Sony of Japan, which makes tubes at its colour television factory at Bridgend in south Wales.

New monarchs for Scotland's silicon glen

By James Buxton

A year ago Mr George Devlin, the Scot who is managing director of the Scottish plant of Compaq, the US personal computer maker, said: "Scotland should invest in making computer displays and monitors – like from yesterday."

A local source of production, he said, was badly needed to *shorten the supply chain. The* product life cycle for Compaq's personal computers has fallen this year to an average of only seven months, but it must, like most other manufacturers in Europe, order its monitors six months to advance from Asia.

Yesterday, Mr Devlin's prayers began to be answered: the Taiwanese company Chung Hwa Picture Tube said it would invest £260m ($404m) in a plant in Scotland to make cathode ray tubes, the core component of monitors as well as of televisions.

It will create 3,300 skilled jobs over four years, considerably helping Lanarkshire, an area recovering from the closure of British Steel's Ravenscraig steel complex in 1992.

With some justification the government has trumpeted the investment as another success for Silicon Glen, the name given to the concentration of mostly foreign-owned electronics plants across the central belt of Scotland, attracted partly by government grants.

Already Silicon Glen produces 35 per cent of personal computers made in Europe, while one in 10 of the microchips made in Europe comes from Scotland. In the past 20 years electronics plants, often set in manicured landscapes, have largely replaced smokestack industries such as steel and shipbuilding as the mainstay of Scotland's manufacturing industry. Electronic products account for more than 40 per cent of Scotland's exports.

Last year the industry's output rose 26 per cent to about £8bn and it will grow at about the same rate this year. It employs at least 45,000 people and continues to receive a string of new investments.

For example NEC, the Japanese group, is spending £530m on upgrading its microprocessor facility at Livingston. The US company Motorola this week opened a £250m expansion of its plant at East Kilbride. Last month Lexmark, the US printer manufacturer, said it was establishing a £26m assembly plant at Rosyth in Fife, and further large inward investmeots announcements are expected in the next few months. Almost no foreign-owned plants have closed during the 1990s.

Yet as Prof Donald MacKay, chairman of Scottish Enterprise, the economic development body, said this year: "We would be hard pushed to claim that electronics is truly 'embedded' within the Scottish and UK economies in the sense that it sources most of its inputs domestically."

He put his finger on concerns highlighted in 1993 in a report for Scottish Enterprise by Monitor, the US management consultancy. It concluded that Scotland's "cluster" of electronics activity had little ability to innovate or adjust to global trends in electronics.

Its worst-case scenario was that if nothing were done employment in the industry could fall to 27,500 as early as 1997, as demand in some sectors dried up and new investment went to southern and eastern Europe. That is obviously at variance with the current rising trend in employment, but the warning spurred key players in the industry to address the weaknesses which the report identified.

A study of major electronics companies by Scottish Enterprise showed that in mid-1993 to mid-1994 the big multinational original equipment makers (OEMs) based in Scotland bought only 19 per cent, or £400m, of components from Scottish suppliers.

Much of the contribution from locally-based companies was of relatively low value products such as circuit boards, plastics, sheet metal and machined parts. High value items such as central processor units, monitors, power supply equipment and disc drives almost all came from outside Scotland. At Compaq, Mr Devlin said last month, 70-80 per cent of components as measured by part numbers come from the UK, but only 30 per cent by value.

Mr John Ward, a former executive with International Business Machines, says: "Encouraging big OEM assembly plants to set up in Scotland and become committed here was absolutely right – you have to start somewhere. We then had to persuade Scottish companies to become more involved with the industry. Now we want them to move up the chain and add more value."

Two years ago the leading foreign-owned and local electronics companies formed the Scottish Electronics Forum. Under the chairmanship of Mr Ward, the former IBM executive, its working groups try to raise the proportion of locally-acquired components, improve their quality, raise the standard of training and develop links with universities.

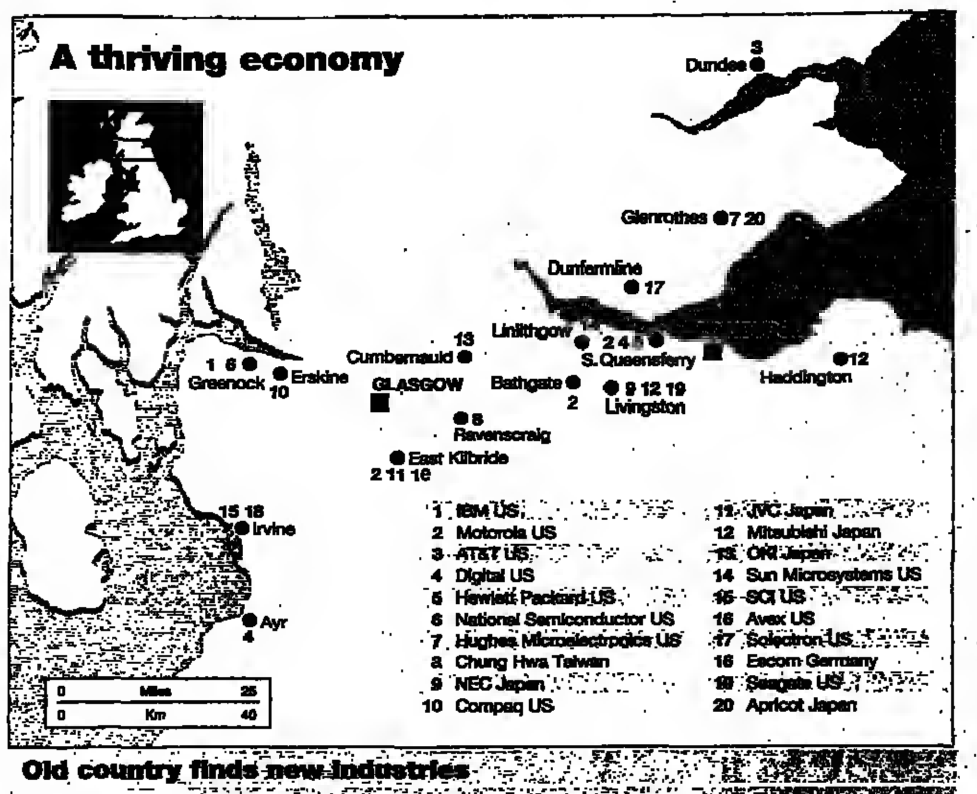
Mr Ward and the Forum have concluded that changes are needed to government rules on granting regional aid. At present these favour labour intensive processes above high value added activities.

As Prof MacKay has argued: "Some activities may be high value added and capital intensive but create few jobs directly. However, they contribute to a substantial amount of indirect employment in the long term."

The Forum wants to change the way regional aid is dispensed to make it economic for multinationals to set up product development operations at UK plants, but the government has indicated it will not make big changes to regional aid before the next election.

Mr Michael Hannon, an electronics consultant, warns that although Scotland is currently a much more competitive location than Germany and France for making electronic components and sub-assemblies, he believes eastern European states with their very low wage costs will soon exploit their cost advantage.

This makes the need for the Scottish industry to improve itself more pressing. "If we're just putting bits on boards in a few years' time it will be a poor lookout," he says.



Old country finds new industries

■ IBM. The US corporation's largest personal computer plant worldwide, at Greenock. Established 1949. Greenock employs about 3,000 people. It makes and distributes PCs for the European, Middle East and Africa markets.

■ Compaq. IBM's biggest rival in PCs opened its only European plant at Erskine in 1987. It employs about 2,500 people and produces about 1.5m PCs a year.

■ Motorola. The US corporation makes semi-conductors at East Kilbride where it employs about 2,500 people and recently completed a £250m expansion. This year it bought Digital's semi-conductor plant at South Queensferry. Motorola also employs 2,000 people [illegible] mobile telephones equipment [illegible] Bathgate where it opened its [illegible]

■ NEC. The Japanese [illegible] semi-conductors at Livingston [illegible] currently building a new £530m plant [illegible] employment to about 1,300.

■ AT&T. The US company [illegible] dispensers in Dundee, employing [illegible] people. Unlike most other multinationals [illegible] Scotland the Dundee plant, formerly known as NCR, develops its own products [illegible] make 40 per cent of all installed [illegible] in the world.

EU ruling triggers pensions tribunal

By Andrew Bolger, Employment Correspondent

An unusual industrial tribunal starting in Birmingham today will help determine claims lodged by 60,000 part-time workers for backdated occupational pension benefits. It follows a ruling by the European Court of Justice more than a year ago.

The Trades Union Congress, which is co-ordinating the employees' actions, said the compensation sought from employers could amount to more than £95m ($150m).

The court ruled that employers who bar part-timers from pensions *schemes could* be guilty of indirect sex discrimination. To avoid clogging up the industrial tribunals system, the TUC and the employers have agreed that the 60,000 claims should be delayed, pending the outcome of 10 test cases to be heard jointly in Birmingham.

The cases will test key legal points – including the right to make a retrospective claim and the amount which can be claimed. Lawyers for the TUC's co-ordinated claims, will argue against setting a two-year limit on the period of retrospection for claiming compensation. Mr Patrick Elias QC will lead for the employers.

The government responded to the European Court ruling by amending the 1993 Pensions Schemes Act with effect from May 31 this year. This confirmed part-timers' pension rights, but also limited the scope for retrospective claims to two years from that date.

If the 60,000 part-timers' claims were backdated to a previous European Court of Justice ruling on part-timers in 1976, the TUC calculates that total compensation could exceed £95m.

A successful outcome could result in hundreds of thousands more part-time workers benefiting through negotiation between employers and trade unions. The TUC said this was affordable, given that total UK pension fund assets total £500bn.

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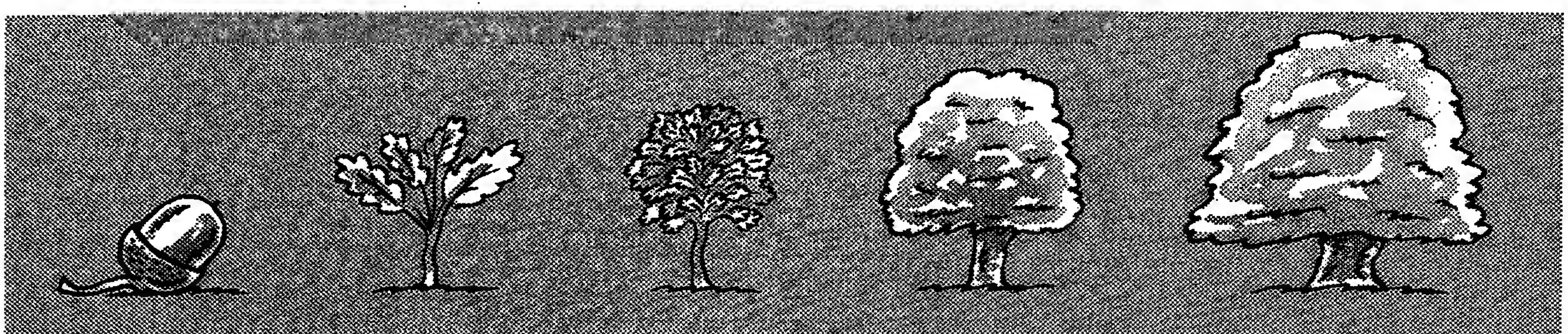

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Co-op's green advice

Producing an ecologically sound widget makes good business sense, but many manufacturers have insufficient access to the information needed for clean production, according to Terry Thomas, managing director of the Co-operative Bank in the UK.

The bank, which advertises itself as an ethical operator, has created a centre for business and ecology to try to fill this gap. Aimed at small and medium-sized businesses, the centre will advise companies on how to clean up their production processes and products. According to Thomas, it will link managers with the world's "best scientific brains" in their pursuit of ecologically sound production.

The bank is spending £1m over five years to staff and equip the centre at Salford University. It will offer companies access to "low-cost, high-quality advice and worldwide scientific knowledge".

Thomas says: "This national centre will help reduce processing costs, improve the ecological quality of the final product, reduce operating costs and, where appropriate, help develop new ecologically sound products."

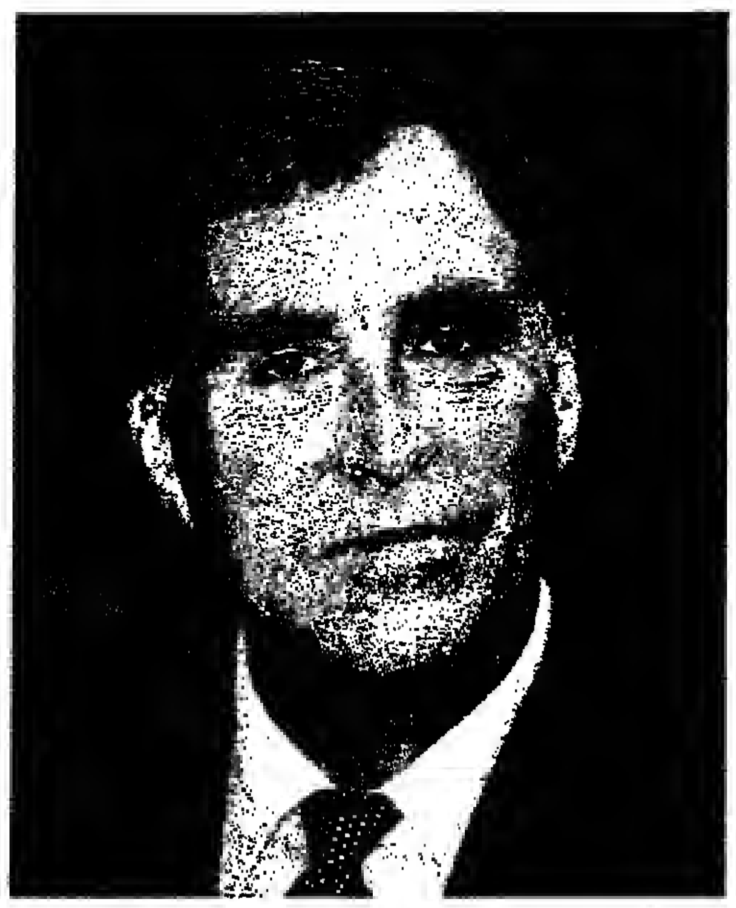
Clean output and investment make good business sense for banks and manufacturers, he adds: "Once a manufacturer knows the whole production process is ecologically sound, it may sell its products at a premium." For lenders, it was "clearly in their interests" to be more ecologically aware. "If a small manufacturer is polluting the land, and its collateral is that land, there will come a day when the company disappears and we are left with polluted land and a factory no one wants," he explains.

The culture of clean and ethical production is becoming more accepted, according to Thomas. Young people are more demanding than earlier generations and their choices are coloured by ecological and ethical issues. This minority will eventually become a majority, he says.

Sheila Jones

Ed Gallagher, head of the UK's new Environment Agency, speaks to **David Lascelles**

In his element



Brendan Corr

'It is very difficult to put a value on environmental benefits,' says Ed Gallagher

Ed Gallagher's office is large, as befits a chief executive, but bare, as befits an organisation which so far exists only on paper – the UK's new Environment Agency. Created last August, it will not go into action until next April.

But Gallagher is already moving into high gear. A brisk, articulate man who clearly relishes a challenge, he is putting together an organisation which he claims "will be unique in Europe".

The EA, created by the new Environment Act, will combine the functions of the National Rivers Authority (of which he was previously chief executive), Her Majesty's Inspectorate of Pollution and the local authority waste regulators. In other words, it will regulate water, air and land on an integrated basis.

"That is good for the environment because it means you can't dump the problems of one on another," he says. "You can't say: don't dump that in the sea, dump it on land instead."

But this also means the EA will be a complex organisation. Headed by a chairman, Lord de Ramsey, and a board of directors, it will be a quango employing 9,000 people, with a budget of £560m a year. Its brief will run from air and water quality, to abandoned mines, contaminated land and river navigation. It will also have other more general remits, such as the promotion of sustainable development and bio-diversity.

The agency will have to serve contrasting, often conflicting, purposes. Its statutory duty is to implement environmental policy taking account of cost, in other words to strike a balance between cost and benefit. This is more rational than setting targets as some other countries do, says Gallagher. However, he expects to be caught in the crossfire between business objections to environmental costs and "greenies" for whom the environment is beyond price.

"Trying to satisfy those two is very difficult," he says. He has three themes which he hopes will make it possible. They are:

● "We are here to make a difference." At the end of each year, Britain's environment has got to be in better shape than it was at the beginning. "We want a heavy results orientation," he says. "We also want to make a difference that lasts." Progress will be measured through an annual report which will track a wide number of environmental indicators such as air and water quality.

Gallagher intends to use both a carrot and a stick to get those improvements. "We'll prosecute where necessary," he says. But legal action implies that damage has already been done, so the agency will also emphasise prevention. Unlike its predecessors, the agency will have the power to issue prevention notices. These will oblige people to take action to prevent an environmental incident which the agency thinks might happen, for example, by plugging a leaking oil tank before it pollutes a river.

The agency will also emphasise environmental education, of business leaders as much as schoolchildren, so that awareness becomes fundamental, not just an add-on. "Only 3 per cent of the world's water is fresh. People need to understand the fragility of what we are dealing with."

● "Try and do whatever we do with public support." Although the agency will be an independent regulator, it will spend much of its time in people's political sights, so it will need sensitive antennae. The exact point where it balances cost and benefit will vary, Gallagher expects. For example, during an economic recession, saving jobs will be a greater concern than during a boom, when quality of life will come to the fore.

One of the difficulties he faces is evaluating the message from events such as the aborted Brent Spar dumping when scientific evidence was overwhelmed by an outburst of public feeling.

"It is very difficult to put a value on environmental benefits," says Gallagher. "But we have got to establish our credibility on the basis of sound scientific evaluation. We have got to add value or we are dead in the water. All this will require extensive periods of consultation. We want to be open and hear what people have to say."

● "Be efficient." Gallagher is keen that the agency's overheads be kept to a minimum, and that as large a proportion of its staff as possible be out in the field. "Ninety eight per cent of our people will be at the sharp end," he predicts. "They will be local people who will know the area, and will have to live with the results of their actions."

Gallagher is also keen to emphasise the "user friendliness" of the agency. He describes the companies he will be regulating as "my customers". The EA will be a "one-stop shop" where companies will be able to deal with one person and one set of rules, rather than find themselves passed from pillar to post. In this sense, the agency fits in with Deputy Prime Minister Michael Heseltine's wider drive to reduce the burden of government regulation.

Gallagher's priorities for the agency fall into a number of broad areas.

Having come from the NRA, he is keen to maintain the improvement which has been made to Britain's rivers. Samples show that these are now 26 per cent cleaner than three years ago, with plenty of scope to go further. Related to water, he also wants to see the water companies patch up their leaks to mitigate the effect of drought on the country's rivers.

On air quality, he wants a tougher approach to particulates, especially diesel fuel. However, traffic is one area where the agency will not have all-embracing powers: it will have to work with other arms of government, such as the department of transport.

Cleaning up contaminated land will become an important area for action with the new measures introduced by the same Environment Act. The agency will be helping to draw up guidelines to allocate responsibility for the clean-up.

Finally, waste will be another priority as the government develops its waste strategy. Here, he is keen to see more conservation of materials, believing that 20th-century man has a lot to learn from his medieval ancestors who made do with very little. "We have got to swing the pendulum back a bit."

Big problems for small companies

Businesses that ignore green issues may be storing up trouble

Britain's small and medium-sized businesses are ill-equipped to respond to mounting environmental pressures, although their contribution to promoting sustainable development could be considerable.

This is the stark conclusion reached by Groundwork, the environmental group, in a report* which looks at the way the smaller and medium-sized enterprises (SMEs) are dealing with the environmental challenge. The report was based on a Gallup survey of 300 companies and prepared by Ruth Hillary of the Centre of Environmental Technology at London's Imperial College.

The tone of the responses was summed up by one SME managing director who, when asked what benefits could be gained from positive environmental action, told his questioner: "Bugger all."

A number of themes emerge from the report. SMEs are:

● Unaware of the relevant legislation;

● Unconvinced of the potential cost savings and market opportunities;

● Out of touch with the concerns of their customers and other stakeholders, in Groundwork's view.

The report found a very high level of ignorance about environmental regulation. Some 84 per cent of respondents, for example, were unaware of the duty of care regulations which now govern the disposal of industrial waste. Forty per cent felt that an increase in environmental legislation would have no impact on them.

The report suggests that this is because SMEs have so many other regulations to deal with – VAT, employment law and so on – that they cannot also take on the environment, which rates as a low priority.

Another reason may be that SMEs are not subject to strong pressures on the environmental front. Only a third of the companies interviewed said they had experienced pressure from their regulators, and only a quarter from their customers. Banks and insurance companies had pressed an even smaller proportion of respondents, only 12 per cent.

However, the growing environmental awareness of large industrial companies such as British Gas, BT, B&Q and Boots The Chemists, which are important customers of the SMEs, could exert stronger pressure as they develop more discipline over their supply chains, the report says.

Four-fifths of the respondents were not convinced that positive environmental action could produce cost savings for their companies, although many agreed that this might become a good reason for taking action.

When asked to list what factors might prompt them to take a more positive line, respondents put helping the environment, improving their image and raising employee morale at the top.

There was similar scepticism among SMEs as to whether new markets and business opportunities could be opened up by putting a heavier emphasis on the environment.

Groundwork says its attitude survey showed that "a typical SME is ill-informed and unwilling to take action unless threatened by strong external forces, such as prosecution or customer demands. Worse still, many foresee no threats or advantages to their companies from the environment". But the report also predicts that the pressures on SMEs to address environmental issues can only increase with time. It offers the following recommendations for them:

● Help to get started with addressing these issues;

● Locally delivered support services;

● Mechanisms to bridge the gap between SMEs and existing support services;

● Pump-priming finance to initiate management actions.

**Small Firms and the Environment. A Groundwork status report. Available from Groundwork, 85-87 Cornwall Street, Birmingham B3 3BY. Tel 0121-236 8565.*

DL

Television/**Christopher Dunkley**

Too many watchdogs spoil the view

The British seem more concerned than any other nation in the free world to prevent people from seeing things that many of them want to see on television. The amount of time, trouble and money devoted to the business of encouraging people to make complaints, adjudicating on them, and publicising the conclusions would astonish – and perhaps amuse – the average citizen of France, Italy or the US. Today in London the BBC is holding a "Governors' Seminar" on taste and decency. Those attending include not only the chairman and governors but the director-general and the managing directors of network television and news and current affairs.

They will spend the day discussing with representatives of the audience such issues as "The programmes which cause offence", and "New research on audience expectations". The crucial question is the true purpose of this event: to allow people to have their say (a good thing) or to try to find a way to run broadcasting so that it fits in with the prejudices of a tiny minority (a bad thing). As ever, the underlying assumption appears to be that the British are babies, they need a nanny, and broadcasters are responsible for what viewers choose to watch and allow their children to watch.

Over the last 20 years there has rarely been a time when there was not some group of politicians trying to tighten the shackles on British broadcasters even though Britain's rules on sex, violence and politics are already more draconian than those on the other side of the Channel and the Atlantic. The headline across the entire front page of this week's Sunday Times said "Tory chiefs fight to 'muzzle' BBC". The article reported a proposal to change the law so that the BBC could be taken to court for alleged political bias.

The story followed complaints from Tory chairman Brian Mawhinney and health secretary Stephen Dorrell about Saturday's episode of *Casualty*, BBC1's hospital drama series, in which one character blamed a patient's death on government health reforms. Such blasphemy! Those who back the thought-policing of television point to the fact that commercial broadcasting already operates under such rules and say that it is anomalous for the BBC to be excepted. But, given our readiness to boast of being a society with freedom of expression, the answer is surely not to extend the fetters to the BBC but to drop them from ITV. Now that wavelength scarcity is rapidly disappearing why should broadcasting not stand alongside print and operate under the law of the land as regards libel, decency, and so on? Why should politicians control what we can say to one another about death in our dramas?

Also at the weekend, at an international conference called "News World 95" in Berlin, Martin Bell, not just one of Britain's top foreign correspondents and war reporters but one of the best in the world, was telling 500 broadcasters from numerous countries that BBC news reporting tends to glamorise war by showing the "bang-bang" bits "and not what happens at the other end: the pain, the violence and the bloodshed". The effect, he said, was to prettify war. Anybody who has compared British war reporting (and this applies as much to ITV as the BBC) and television news in countries such as the US, Germany and Sweden knows this to be true.

It is not new. One reason why support on the home front for American efforts in Vietnam shrank and shrank was that the war reports given to American viewers were more explicit than those given to British viewers. In this country we were "saved" from the nasty bits by broadcasters who fed us "acceptable" footage. The result was bafflement on the part of some British viewers who could not understand why so many Americans seemed to be losing faith in their own side. Treat the public like babies and they end up in the condition of babies.

Where news is concerned disclosure should always be preferred, as I learned years ago when playing devil's advocate at a conference on news. I suggested that it might be best not to reveal the precise location of a riot while it was still occurring for fear of telling would-be rioters where to go. Nonsense, exclaimed a shopkeeper, news programmes had a duty to supply that information so that he could hurry down and board up the windows of his shop.

But the area which causes most excitement is not news but sex. Every month or so the Daily Mail finds a reason for reinvigorating its campaign against those who like explicit sex on television. On Monday this week the Mail's main front page headline declared "Blackout For Hard Porn TV" and the report began "A landmark victory is in sight in the war on hard-core pornography flooding into Britain on satellite television. Swedish-based TV Erotica is to be outlawed here within weeks, with the European backing which will be crucial to turning back the tide of filth from other channels".

The truth is that the overwhelming majority of Britons are completely unaware of this flooding tide (which in other European countries is accepted as one among many minority testes, with scarcely a murmur) since, in order to get it into your home, you have to buy a satellite dish and a decoder, then a special smartcard costing £139 from an address which has to be tracked down via the specialist press.

Of course the big concern, we are always told, is not that keen adults can get access but that children will. That is a reasonable enough fear if you are the kind of person who hands your cash card to your children, tells them your pin number, and says "Now don't you dare go to number 36 Balaclava Road and take money out of my bank account".

No doubt the Mail believes that it speaks for "the silent majority", yet the fact is that whenever there is any proper research on people who actually want to ban sex or swearing it shows that the numbers are tiny. What most people want is to ensure that they are not taken by surprise by such material, especially when there are major age differences in the viewing group.

Britain already has codes of conduct, rules, and watersheds to achieve this, and more bodies responsible for enforcing them than any other country in the civilised world. In addition to the governors of the BBC and the Independent Television Commission, which controls commercial broadcasting, we have the Broadcasting Complaints Commission and the Broadcasting Standards Council.

It might be as well if the people at today's BBC seminar were to bear in mind that among the countless reports from these groups, minutely analysing the number of complaints about this, that, and the other, it was recently revealed that 46 complaints had been received about *Cracker* on ITV. Since 15 million people were watching, that means that 0.0003 per cent of the audience complained. Does this seem like a good reason for yet another tightening of the restraints on our freedom to express ourselves via television?

Polished, amusing and quoteworthy: 'The Shakespeare Revue' is a handsome tribute to British comic writing — Alastair Muir

Theatre/**Alastair Macaulay**

Shakespeare tuned into the 20th century

Romeo finds that he is beneath Lady Macbeth's balcony; and the Moor of Venice, in *Othello in Earnest*, is interviewed in most Wildean fashion, over cucumber sandwiches, by Lady Brabantio. *The Shakespeare Revue*, an anthology of comic sketches based loosely around Shakespeare, is clever and funny and well performed by a team of five.

The Shakespeare Revue, culled from comic material written throughout this century, began life last year with the Royal Shakespeare Company. With revisions and new material, it arrives in the West End; and some of its newest material is also its best. *Othello in Earnest* and Lady Brabantio are the brilliant creations of Perry Pontac. *Othello*: "I am, I'm afraid, often out of Venice: slaughtering the infidel, sacking and burning towns, beheading prisoners." *Lady Brabantio*: "I am pleased to hear it. A man who remains at home can do incalculable harm." Then, as he explains to her his birthplace and childhood and career, she grows ever more Lady Bracknell-like in her responses: "Africa? . . . A sandbag? . . . To be scalped once, Mr Othello, may be regarded as a misfortune; to be scalped twice looks like hairlessness . . . The lion is immaterial." As Lady B., Susie Blake clinches the Wildean style deliciously.

This show does next to nothing to expand your knowledge of Shakespeare, but it is a handsome tribute to British comic writing: including items by Richmal Crompton, J.B. Priestley, Herbert Farjeon, Sandy Wilson, Caryl Brahms and Ned Sherrin, *Beyond the Fringe*, *Monty Python*, Tim Brooke-Taylor and Bill Oddie, Ronald Harwood, Stephen Fry and Hugh Laurie, Victoria Wood, and Patrick Barlow (several were at the first night). The show's cleverness extends to a brief musical quotation from Benjamin Britten's *A Midsummer Night's Dream* that few people will spot; and Jenny Arnold's fine choreography includes a soft-shoe routine borrowed, perfectly, from Frederick Ashton's *Façade*.

Nothing could be more wittily apropos and up-to-date than Maureen Lipman's *P.C. or not P.C.*, a response to the National Theatre's casting of Fiona Shaw as Richard II. "Emma's Petruchio will leap from a casement, To land with a thud on Ken Branagh's replacement . . . And here's Jodie Foster, with guide dog, as Gloucester – Lord knows who's playing the Fool." This and *Othello in Earnest* are among the sketches commissioned for this production; among the others, *The English Lesson* – a panto version of the scene for Katherine and Alice in *Henry V* – is perhaps the most hilarious point of the evening.

The new blood is very welcome, for *The Shakespeare Revue* often has an old-fashioned air. Its very cleverness feels like old Footlights cleverness, knowing, and sometimes too unspontaneous for comfort.

The three suave gents of the cast – two of whom, Christopher Luscombe and Malcolm McKee, have devised and directed the show – wear black tie, and seem like throwbacks to bygone revue artists. McKee, who plays the onstage piano, frequently delivers lines with a smirk; and Martin Connor, the third gent, is altogether too self-congratulatory. Luscombe is an excellently droll character actor, Janie Dee is a fine and charming singer (though there is now a marked and peculiar dichotomy between her chest and middle registers), and Susie Blake is a constantly fresh source of delectable wit. All five give performances of rare accomplishment. There is a narrowness of spirit onstage that is sub-Shakespearian. But *The Shakespeare Revue* is polished and amusing and quoteworthy.

Vaudeville Theatre, London WC2.

Concert/**Antony Bye**

Stimulating Segerstam

Conductors may be notoriously vain creatures, but it takes an extreme measure of self-confidence for a conductor to programme one of his own works as an encore. But at the end of Leif Segerstam and the Helsinki Philharmonic's concert at the Royal Festival Hall on Saturday the players had so captured the hearts and minds of their audience that it would have probably responded as warmly if they had offered an extra hour of early Boulez or Stockhausen. In the event, Segerstam's own Nocturne proved an attractive if inconsequential five minutes of wispy, mildly avant-garde mood-music, which neither added nor subtracted from the high achievement of the programme proper.

On paper the repertoire looked distinctly unimaginative – Brahms's First Piano Concerto and Sibelius's Fifth Symphony – staple diet of most orchestras, visiting or otherwise. It was not as if the orchestra was new to these shores and needed to prove itself: it first came here in 1934 and has paid intermittent visits ever since, the most recent in 1990. Admittedly the Helsinki PO has a Sibelius tradition extending back to the Master himself, but I suspect that Segerstam, an underrated but profoundly creative musician, has little sympathy with replicating past glories, however "authentic".

Perhaps it was his physical resemblance to Brahms which made his interpretation of the First Piano Concerto the authoritative and inspiriting experience that it rarely is these days. It was certainly one of the most thoughtful, detailed and impassioned readings I can remember, a "stormy and stressful" odyssey notable for the unsuspected range of colour clothing Brahms's potentially muddy orchestration. The soloist of comparable creative insights, Steven Kovacevich, entered almost nonchalantly, but then proceeded to accomplish the almost impossible task of making Brahms's unflettering, chunky piano writing sing and dance, even when, as in the slow movement, orchestral and piano sound was pared down to the merest whisper.

Perhaps because Segerstam has only recently been installed as its principal conductor and because of its ingrained Sibelius tradition, the orchestra's account of the Fifth Symphony seemed less strongly characterised, despite the authority and enthusiasm with which it was projected and, not least, the players' enviable unanimity of attack. At this early stage in his new relationship with the orchestra, Segerstam preferred, quite rightly, to emphasise the symphony's overall integrity rather than linger on its many incidental beauties; though when they come to record a new Sibelius symphony cycle in the near future, I suspect that, given his imagination and will, it may turn out to be as stimulating as his Brahms.

Concert/**Adrian Jack**

Carmina and friends

Five concerts in four days featured the Zurich-based Carmina Quartet and friends in chamber music from the 1820s – a decade in which Beethoven and Schubert wrote their greatest works and the first generation of Romantics, Mendelssohn, Weber and Chopin, also spread their wings.

On Thursday, Schubert's most popular quartet, *Death and the Maiden*, was preceded by his six Heine songs from *Schwanengesang*. The young Canadian bass-baritone Nathan Berg replaced Oliver Widmer, who was ill, partnered by the pianist Jeremy Menuhin.

Berg's voice has a real cavernous quality, and yet it is also quite light, and his articulation of words was clear and easy. He did not wheedle with undue flirtatiousness in *Das Fischermadchen*, nor make too much of the self-pity in *Am Meer*, but he obviously felt the words, and mustered due strength in *Der Doppelganger* and *Der Atlas*. As an encore, he sang *Der Tod und das Madschen*, the song on which Schubert based his D minor Quartet.

In that spiritually and physically exhausting work the Carmina Quartet really made you sit up and listen. After the peremptory opening bars, their hushed intensity was thrilling, and they maintained the level of commitment to the end.

Schubert's tempo direction for the second movement makes clear it is not exactly slow, but the Carmina's pace did not quite allow their leader's elaborations in the penultimate variation to breathe easily. Still, it was a gripping performance, and mercifully unbroken by tuning between movements.

The following evening the Carmina Quartet were joined by two friends – the viola-player Bruno Giuranna in Mendelssohn's String Quintet in A, Op. 18, and the clarinettist Paul Meyer in Weber's Clarinet Quintet.

It was understandable that they played the Weber last, because it is a spectacular showpiece for the clarinettist, and Paul Meyer made the most of his creamy pianissimo passages as well the opportunities for athletic bravura. But to put Schubert's sublime, profoundly plaintive Quartet in A minor before Mendelssohn's altogether more superficial Quintet seemed insensitive.

Both works were well played, although the first violinist's tone was inclined to be a bit thin and the final movement of the Schubert was taken rather fast.

Still, balance was excellent and the strength of each player ensured a constant and lively interplay.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Koninklijk Concertgebouworkest: with conductor Hans Vonk and clarinettist George Pieterson perform Brahms' "Akademische Festover ture", "4th Symphony" and "Sonata for clarinet"; 8.15pm; Nov 16
● Sara Fulgoni: accompanied by pianist Kelvin Grout. The mezzo-soprano performs songs by French composers, including Poulenc and Milhaud; 8.15pm; Nov 19

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203092100/01
● Cheryl Studer: accompanied by pianist Jonathan Alder. The soprano performs songs by Rossini, Brahms, Barber, Wolf and Mahler; 8pm; Nov 16
Philharmonie & Kammermusiksaal Tel: 49-30-254880
● Edmund Wertanzl: the pianist performs works by Schumann, Schubert, Liszt and Chopin; 8pm; Nov 16
OPERA & OPERETTA
Deutsche Oper Berlin Tel: 49-30-3438401
● Siegfried: by Wagner. Conducted by Jiri Kout and performed by the Deutsche Oper Berlin. Soloists include René Kollo, Horst Hiestermann, Robert Hale, Eva Marton and Oskar Hillebrandt; 5.30pm; Nov 16
Staatsoper unter den Linden Tel: 49-30-2082861
● Tosca: by Puccini. Conducted by Simone Young and performed by the Staatsoper unter den Linden. Soloists include Nelly Miricioiu (Nov 17), Anna Tomowa-Sintow (Nov 23, 26), Andreas Kohn, Bernd Zettisch and Andreas Schmidt; 7.30pm; Nov 17, 23, 26 (6pm)

■ BRUSSELS

DANCE
Théâtre Royal de la Monnaie Tel: 32-2-2291200
● Erwartung/Verklärte Nacht: by Schoenberg. Choreography by Anne Teresa de Keersmaeker, conducted by Antonio Pappano and performed by Rosas. The role of the woman is danced by Janis Martin (Nov 15 and 17) and Anja Silja (Nov 16); 8pm; Nov 15, 18, 17

■ CHICAGO

OPERA & OPERETTA
Civic Opera House & Civic Theatre Tel: 1-312-332-2244
● Don Pasquale: by Donizetti. Conducted by Paolo Olmi and performed by the Lyric Opera of Chicago. Soloists include Paul Plishka, Ruth Ann Swenson, Bruce Ford, Jeffrey Black and Jeffrey Ray; 7.30pm; Nov 17, 20, 25

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Siberian State Philharmonic Orchestra: with conductor Victor Barsov and cellist Vladimir Tonkha perform works by Rimsky-Korsakov, Prokofiev and R. Strauss; 8pm; Nov 18
OPERA & OPERETTA
Opernhaus Tel: 49-221-2218240
● Die Zauberflöte: by Mozart. Conducted by Georg Fischer and performed by the Oper Köln. Soloists include Franz-Josef Selig, Rainer Trost, Amanda Halgrimson and Nina Stemme; 7.30pm; Nov 17, 19, 23, 29

■ FRANKFURT

DANCE
Jahrhunderthalle Hoechst Tel: 49-69-3601240
● Nederlands Danstheater 3: performs choreographies by Kylián, van Manen, Béjart and Bruce; 8pm; Nov 18

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig Tel: 49-341-12700
● Alfred Brendel: performs Beethoven's sonatas op. 109, 110 and 111; 8pm; Nov 17
MUSICAL
Haus Dreilinden Tel: 49-341-1261261
● Cabaret: by Masteroff/Kander. Conducted by Roland Seiffarth and performed by the Oper Leipzig; 7.30pm; Nov 16, 17

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● The Indian Queen: by Purcell. Conducted by Christopher Hogwood and performed by The Academy of Ancient Music Chorus and The New York Baroque Dance Company. Soloists include sopranos Emma Kirkby and Catherine Bott and counter-tenors James Bowman and Robin Blaze. Also performed is Purcell's "Come, ye sons of art, away"; 7pm; Nov 17
St. Giles Cripplegate Tel: 44-171-6388891
● The Consort of Musicke: with sopranos Emma Kirkby and Evelyn Tubb, bass Simon Grant, organist Alan Wilson and lutist Anthony Rooley perform sacred vocal music by Purcell; 10pm; Nov 17
● The Consort of Musicke: with sopranos Emma Kirkby and Evelyn Tubb, alto Mary Nichols, tenors Joseph Cornwall and Andrew King, bass Simon Grant, organist Alan Wilson and lutist Anthony Rooley bring a mixed programme of secular songs from "Orpheus Britannicus I", the extensive collection of over 60 of Purcell's songs published three years after his death, together with two solo pieces for lute and harpsichord; 1pm; Nov 18
St. Martin-in-the-Fields Tel: 44-171-8398362
● Mozart - Eine kleine Nachtmusik by Candlelight: London Concert Sinfonia with conductor John Landor perform Mozart's "Eine kleine Nachtmusik", Pachelbel's "Canon in D", Tchaikovsky's "Serenade for Strings" and Bach's "Concerto for Two Violins"; 7.30pm; Nov 18
EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● Richard & Maria Cosway: Regency Artists of Taste and Fashion: the artistic couple Richard and Maria Cosway, active in Europe during the late eighteenth and early nineteenth centuries are subject of this exhibition comprising some 250 works drawn from public and private collections, including miniatures and jewellery, portrait and subject drawings, engravings, oil paintings and works of art from the Cosway collection; from Nov 17 to Feb 18

■ LUXEMBOURG

DANCE
Théâtre Municipal Tel: 352-470895
● Electre: choreography by Jean-Charles Gil and music by Mikis Theodorakis. Performed by the Ballet du Grand Théâtre de Bordeaux (first performance); 8pm; Nov 16, 17, 18

■ MUNICH

CONCERT
Philharmonie im Gasteig Tel: 49-89-480980
● Orchestre National de Lyon: with conductor Emmanuel Krivine and pianist Lazar Berman perform Grieg's "Piano Concerto", Mussorgsky's "Night on the Bare Mountain" and Rimsky-Korsakov's "Sheherazade"; 8pm; Nov 18

■ NEW YORK

OPERA & OPERETTA
Metropolitan Opera House Tel: 1-212-362-6000
● The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev and performed by the Metropolitan Opera. Soloists include Karita Mattila, Birgitta Svendén and Leonie Rysanek; 8pm; Nov 16

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Alan Gampel: the pianist performs works by Liszt and Chopin; 8.30pm; Nov 16

■ SAN FRANCISCO

EXHIBITION
MOMA - Museum of Modern Art Tel: 1-415-357-4000
● An Everyday Modernism: The Houses of William Wurster: drawings, models and photographs explore the 50-year career of the Bay Area architect. Wurster's homes, both urban and suburban, embody his principles of simplicity and economy, at the same time that they respond to environmental conditions; from Nov 16 to Feb 4

■ WASHINGTON

CONCERT
Concert Hall Tel: 1-202-467 4600
● National Symphony Orchestra: with conductor Robert Spano and violinist Maria Bachmann perform works by Rorem, Saint-Saëns, Thomson and Debussy, as well as Winkler's "Fanfare"; 8.30pm; Nov 16, 17, 18, 21 (7pm)

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COMMENT & ANALYSIS

Ian Davidson

Bonn ups the ante

The German proposals for an economic stability pact have lengthened the odds against monetary union

If ever economic and monetary union in Europe does go ahead to a single currency, it is now clear from the political debate in Germany that it will only do so on terms that are significantly tougher than originally planned.

For that reason, the odds may have lengthened perceptibly against its happening at all. But in any case, you can say goodbye to the present British government taking part – or indeed its likely Labour successor.

In Bonn, the government and the opposition are each outbidding the otber to demand even tighter conditions of monetary and fiscal stability than were laid down in the Maastricht treaty. And Mr Theo Waigel, the finance minister, has now explicitly proposed that the Maastricht scheme should be buttressed by a new economic "stability pact" between the member states that take part in the single currency.

Meanwhile there are other voices in Germany, inside and outside tbe perliamentary debate, urging that the single currency could easily he delayed without disadvantage beyond starting date set in the treaty of 1999.

There are broadly two ways of reading this German debate. The first is that the German political establishment is now running so scared before popular resistance to Emu that it is looking for any pretext to scupper it. The other is that, yes, the political establishment is running scared before public opinion; but that it is genuinely looking for ways of improving the plausibility of the Emu scheme, so that when the time comes it can be sold to the electorate and voted through the Bundestag.

At this stage in the proceedings, it seems to me likely that the second of these two readings is more representative of the broad church of opinion in the political establishment in Germany.

Naturally, there are German politicians and businessmen who see no benefits for Germany in Emu. Since the single European currency is hardly likely to be *more* stable than the D-Mark, it follows that it may well be less stable. A generation thet remembers the inflation of the prewar Weimar republic and fears its return may feel this is not, in narrowly monetary terms, an attractive bargain.

But e generation of political leaders whicb remembers Weimar will also remember the Hitler years that followed, and is unlikely to judge the Emu project solely in narrowly monetary terms. Public opinioo may be fearful that a monetary union which included Italy and Spain could bring back the dangers of inflation. Bnt most of the political establishment will judge it as part of the broader political context of European integration, whicb created the conditions for Germany's re-emergence as a fully sovereign country.

Moreover, this generation of the German political establishment has been conditioned to believe in principles of legalism and respect for the law. Most of them, I would guess, are psychologically incapable of deliberately seeking to circumvent a treaty which they had ratified in the Bundestag, without a great deal of provocation.

By definition, major provocation has not yet happened, since a single currency is still over three years away. But it seems obvious that what has really exacerbated these German jitters over Emu is the election of President Jacques Chirac. Cbancellor Helmnt Kohl had a firm and reliable partnership with François Mitterrand, his predecessor. But Jacques Chirac is a much more changeable figure, and no-one knows exactly what he believes in, or whether he will stick to it.

Mr Waigel recently provoked an unintended furore in Rome, when he was quoted as saying that Italy was unlikely to be an early member of a single currency. But the more significant aspect of his assessment was an element of doubt whether even France would really meet the conditions for membership on time. It is possible, it may even be desirable, to start monetary union without Italy; without France it is unimaginable.

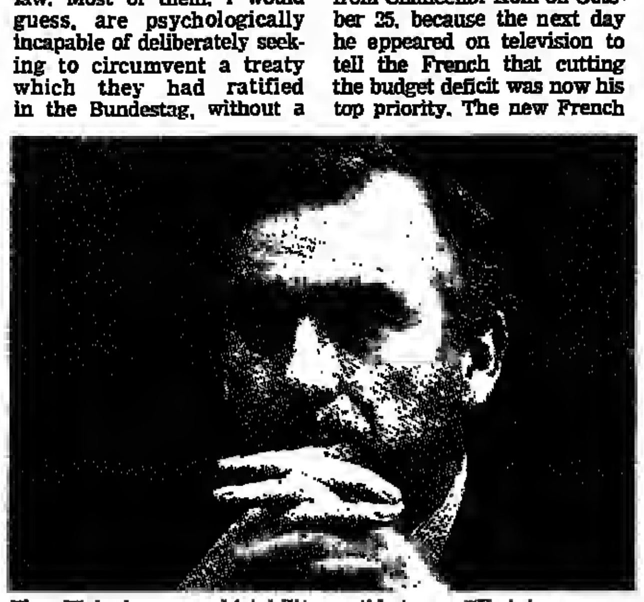
Recently, there has been a firming up of the French posture. President Chirac evidently got e good talking-to from Chancellor Kohl on October 25, because the next day he appeared on television to tell the French that cutting the budget deficit was now his top priority. The new French government thia wssk embarks on an attack on the social security deficits, and on Monday the French and German foreign ministers jointly reiterated their commitment to start monetary union on schedule in 1999.

But the problem is that Mr Chirac is the impulsive figure he has always been, liable to shift direction according to circumstances. It now looks increasingly unlikely that the Germans will go ahead with Emu, unless they get bankeble guarantees against erratic economic behaviour. Maastricht lays down fairly strict economic preconditions *before* a member state can join the single currency. But the treaty rules for ensuring economic discipline *after* joining the single currency are much more uncertain.

Moreover, there seems to be a logical disequilihrium between the federalism of the planned European monetary system, and the virtually complete independence of national fiscal policies.

This is the significance of Mr Waigel's plan for an economic "stability pact". Headlines have focused mainly on his proposal for e system of deposits and fines, to punish states which exceed the permitted deficits. But in fact such punishment would be wholly exceptional, hecause the central point in the plan is that in future national fiscal policies would be jointly supervised and co-ordinated.

In other words, the Germans are upping the ante for Emu: it cannot just be a technical device for monetary stability, but must be buttressed by serious political integration at the economic policy-making end. This is a proposition which is bound to split the European Union between those member states which really want a more integrated Europe, and those which do not. But it is now most unlikely that the Germans *can* go ahead with Emu without a stability pact or something very like it.



Theo Waigel: proposed 'stability pact' between EU states

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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A difficult and costly procedure

From Mr Patrick Shovelton.

Sir, The issues involving airlines and shipping companies which unwittingly carry persons refused entry to the UK are more complicated than can be inferred from your report ("Airline apologises for 'ethnic passport' incident", November 11).

The fact is thet carriers are liable to a fine of £2,000 per passenger unless the falsity of their documents is "reasonably apparent". But there is no such let-out for the payment of detention costs. If a person is refused entry but then appeals and is detained, the carrier is responsible under the Immigration Act 1971 for the full cost of detention.

As the average cost of detention in a police cell is £298 per night, and can be as high as £874 in Bedfordshire (memorandum of supplementary evidence submitted by the permanent secretary, Home Office, to the Public Accounts Committee in April 1995), and as hundreds of persons are detained for periods up to six months, it can readily be appreciated that the costs falling on carriers may be substantial.

What is needed is a single amendment to the relevant provisions of the Immigration Act 1971 similar to those in the Carriers' Liability Act of 1987. It must be hoped that in the forthcoming bill on immigration such an amendment will be made.

Patrick Shovelton,
adviser, Maersk Air,
63 London Road,
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Kent TN1 1DT

Fines to regulate Emu states would be small price for them to pay

From Professor Ira Sohn.

Sir, The proposal by Mr Theo Waigel, Germany's finance minister, to fine EU countries that exceed the Maastricht budget deficit guideline of 3 per cent of gross domestic product ("Germany proposes fines to regulate EMU states, November 11), if enacted, is likely to be as effective in reforming profligate governments as the fines levied against a well-known New York clothing retailer 35 years ago for violating the law prohibiting Sunday trading.

Every Sunday the shop owner gladly accepted a summons – often from the same police officer – because the benefits from opening far exceeded the amount of the fine.

For the EU countries with the largest current budget deficits – Greece, Sweden, Italy and Spain – every 1 per cent of GDP in excess of the guideline would trigger the following approximate fines, on a per-capita basis: Greece, $20; Sweden, $60; Italy, $50 and Spain $35. Even multiples of these fines are just pocket money to pay in order to continue doing "business as usual".

Ira Sohn,
professor of finance,
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Upper Montclair,
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E-money and real money

From Mr Stuart V. Alexander.

Sir, It was wonderful to see that an old Yorkshire name could be adopted as the name for the Emu currency (Personal View, November 2).

I can remember my old dad telling me of the scene in the Yorkshire mining village on a Friday when his uncle used to come home from the pit and his aunt would open the pay packet and exclaim "E-money".

They'd be gre'dly proud tha' now'st.

Stuart V. Alexander,
99 route de Luxembourg,
L-7373 Lorentzweiler,
Luxembourg

From Mr Keith Sykes.

Sir, The thoughts provoked in me by Giles Keating's Personal View on e-money are the following e-pennies' worth.

First, we must be able to re-credit the originating bank account when we have "finished" with a particular currency, or many of us and our companies could be holding a dozen or more lumps of unutilisable cash.

Second, does the suggestion that the e-money system could cause poor currencies to succumb to the power of better ones necessitate the re-writing of Gresham's Law? (bad money forces out good). If so (or even if not), who better to undertake the task than Mr Keating?

Keith Sykes,
chairman,
Keith Ceramic Materials,
c/o Seoul Plaza Hotel, Korea

British Gas can learn from US on supply

From Philip M. Larkin

Sir, Surprisingly, neither the article hy Robert Corzine on British Gas's problems ("Competitors turn up the heat", October 25) nor any of the subsequent letters on the subject have referred to the very similar experiences of the US gas industry some years ago.

Until the middle years of the last decade, market forces played little or no part in the operation of the US natural gas industry because of the effects of misguided legislation and regulations arising out of the infamous Phillips case more than 30 years ago. The development of a huge surplus of supply (the "gas bubble") led to a number of Federal Energy Regulatory Commission (FERC) orders and more enlightened legislation, resulting in the emergence of a free market.

Deregulation has not been without pain, especially for the inter-state pipeline companies which, under the old regime, had, like British Gas, signed long-term take-or-pay gas contracts which they could no longer fulfil. However, through a process of negotiation, in which the FERC played an active role, the pipeline companies have been largely able to buy themselves out of their contracts and recover much of the cost from pipeline users.

The US pipeline industry has also changed. Not all companies have successfully adapted to the new regime – a company called Transco was the most recent casualty! One of the most successful US pipeline companies is Enron, operator of a gas-fired power station on Teesside. Enron recently postponed the start of a contract to take North Sea gas from Phillips, the company involved in the historic US case and the first, in the mid-1960s, to contract for the sale of gas to the former Gas Council from the Hewitt field.

The US industry's transformation may not exactly parallel that taking place in the UK but some of the same symptoms have appeared, including the UK's own gas hubble. So not only British Gas is suffering. There do seem to be a number of lessons from the US which could usefully be applied to the British market, including active participation by the regulator, Ofgas, the structure of which may also need changing.

Philip M. Larkin,
Energy Economics and Analysis,
86 Woodland Drive,
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Underground

From Mr Edward Clack.

Sir, The prospect of the flotation of the National Grid was accompanied by news that each household will receive the equivalent of £50. A windfall for reinvestment into, say, the national lottery, Christmas presents or beer and skittles.

An alternative would arise if the whole sum were retained, pooled and spent on a programme to replace the existing distribution network of pylons with cables run underground. This was an option rejected when the grid was erected in tha late 1950s because insufficient funds were available.

Now we are presented with a second chance to amend the failings of decision-takers at that time. The result would be a "tangible" benefit to future generations.

Edward Clack,
86 Sarsfield Road,
London SW12 8HP,
UK

View lacked understanding of Canadian politics and culture

From Mr John West.

Sir, James Morgan's analysis of Quebec separatism and the future of Canada ("Divided hy a common tongue", November 4/5) was amazing for hoth its offensiveness and lack of understanding of Canadian politics and culture.

Mr Morgan seemed to go out of his way to heap insult after insult on Canadians in Quebec and throughout the rest of Canada. He failed to understand that while Canada certainly needs Quebec to maintain its distinctiveness from the US, Quebec equally needs the rest of the Canadian federation. Indeed, it is more than arguable that Quebec has survived as a distinctive French-speaking province as a result of the protections and support afforded to it by the rest of Canada. In summary, both Quebec and the rest of Canada need each other as much as the other and independence for Quebec will likely result in both heing swept up into a US monolith. Notwithstanding Mr Morgan's negativism, my prediction is that the "Quebec prohlem" will be resolved in the context of a renewed Canadian federation and that Canada will continue to be one of the more enlightened and civilised democracies in the world.

When I read Mr Morgan's comments about Canada being the "irritating nanny of the north", it made me recall that every time in the past few years I have bad the occasion of visiting Great Britain, I would rather have been in France.

John West,
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The long view at Shell

Despite recent executions, the company's Nigeria project is likely to go ahead, says David Lascelles

By the end of today we should know whether Shell and its co-investors intend to go ahead with their planned $4hn liquefied natural gas plant in Nigeria. All the indications are that they will, in spite of international condemnation of last week's execution of Ken Saro-Wiwa and eight other minority rights activists. Last night Shell issued the latest of many statements extolling the benefits of the scheme.

Although multinational companies, particularly oil companies, freqnently find themselves facing a clash of political and husiness interests, each case presents a fresh dilemma, and Shell has clearly found this one particularly embarrassing. Like most multinationals, the company believes that business should strive to remain above politics. But that belief is rooted deep in Shell; when the clash arises it can either produce a high degree of determination to press on, or confusion. Both can be illustrated with examples which may give clues to its thinking on Nigeria.

One is last summer's Brent Spar episode, when Shell caved in to international opinion and cancelled the dumping of the oil installation in the North Atlantic. It would be wrong to see a precedent here. Dramatic though it looked at the time, it was, in terms of Shell's strategy, a comparatively minor event – essentially a choice between methods of disposing of a bulky piece of equipment. There was a loss of face, which is certainly painful, but no threat to vital business interests. The Nigerian decision is mnch more fundamental.

If a precedent is needed, it lies more in Shell's earlier policy on South Africa. Here, the company decided to brave world opinion and stay put on the grounds that it was good for husiness – and for the suppressed South African blacks. Admittedly, Shell never became quite the same target of anti-apartheid activists as companies such as Barclays Bank, which did finally quit. But the strategy paid off. Today Shell has a strong position there, it has the experience of dealing with exceptionally difficult political situations; and it has acquired some moral authority as well.

Subsequent events in Libya, Iran and Iraq have reinforced its view that sanctions are not effective at removing unpopular governments.

Seen from Shell's perspective, the investment in Nigeria represente an important long-term commitment which can be clearly distinguished from the – probably short-lived – furore over the executions.

> As the company sees it, the case for going ahead has a strong business foundation, and a timeframe that transcends any likely political fallout

The deal has already been many years in the making. Even if construction starts next year, it will be 2000 before the gas starts flowing – and virtually all of it has been pre-sold to European utilities, so the business risk is small. By the time investors receive their first dividends in 2007, last week's events will belong to the distant past. So, even discounting Shell's reluctance to take a political view, the husiness case has a dimension and a merit of its own.

There are other arguments, of course, for going ahead with the deal. It will henefit the Nigerian economy and reduce the environmental pollution in the Niger delta region by reducing the flaring of surplus gas. Although these do not directly enhance the value of the investment for Sbell's shareholders, one political lesson the company has learnt is that oil companies do best by being good visitors.

However there are also signs of a more hard-ball approach. As part of the propaganda offensive that Shell will soon launch to justify its actions, there will be a film containing allegations that the delta people have sabotaged Shell oil installations, and deliberately pollnted their land to claim compensation.

Another way Nigeria differs from Brent Spar is in how it fits into Shell's complex corporate structure. One reason why Brent Spar was so painful is that it creeted a division between the UK arm of the company and the group overlords in The Hague. In the end, The Hague overruled London. This time, the decision is ultimately the responsibility of Mr Maarten van den Bergh, one of the Dutch overlords. To Shell Kremlinologists, this makes it more likely that the company will pursue a consistent business line, unclouded by the Commonwealth links which affect the view from London.

Ironically, the more difficult calculation that Sbell may have to make is whether the Nigerian government wants the plant to go ahead at all. Lagos has had to put up $1bn as an earnest of its commitment. But if the plant is cancelled, the money will he released for the military regime to spend as it chooses. Given the short time horizons of Nigerian politics, that may be a more attractive option for the country's rulers than ploughing the money into a plant which will yield little near-term political return.

But this is precisely the sort of cynical view that sits ill with Shell's corporate culture. As the company sees it, the case for going ahead has a strong husineas foundation, and a time frame that transcends any likely political falloul from tbe executions. The fact that it sbould benefit Nigeria – and bold tbe military government to an important financial commitment – are additional reasous for expecting a positive outcome to today's board meeting.

FINANCIAL TIMES

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Wednesday November 15 1995

Russia's sale of the century

History will judge the transfer of the bulk of Russian industry into private hands as one of the defining moments of the country's economic transformation. Privatisation symbolises tha greatest success of the past five years of fitful economic reforms – and the greatest failure.

The success is that, thanks in large part to the mass privatisation process completed last year, Russia now has something resembling a market economy, and will retain it under almost any conceivable change of government. Even the toughest parliamentary opponent of reform accepts that there can be no return to a command economy.

The failure of privatisation is that it has allowed the transfer of swathes of Russia'a hugely valuable energy industry on the cheap to a handful of privileged insiders. Although the law of the market has prevailed over command and control, the transfer of large chunks of the country's most valuable assets to a few instant oil and gas billionaires betokens Russia's failure to replace the personalised, highly corrupt politics of previous eras for a more transparent and liberal form of governance.

Privatisation was always going to be messy and imperfect in a country where support for economic reforms was, at best, fragile. When Presideot Boris Yeltsin placed Anatoly Chubais in charge of managing state property in November 1991, few would have believed that by the summer of 1994 more than 130m Russians would have taken part in privatising nearly 16,000 state companies.

Disproportionate rewards

That this was achieved is largely a result of Mr Chubais's willingness to compromise. By and large, he bought insiders' support for privatisation hy allowing them to reap disproportionate rewards. By some estimates, roughly two thirds of newly privatised companies are in the hands of workers and managers rather than outside investors. Although this has in many cases retarded the process of restructuring Russian industry, few doubt that the compromise was a necessary part of getting privatisation off the ground at all.

Nor, in most sectors, are the costs of distributing the gains of privatisation so inequitably likely to outweigh the economy-wide benefits of ending state control. Yet the potential costs of insider dealing in the vast energy sector were always likely to be far larger. This was not because the Russian gas and oil companies could not benefit from a change of manageneot after years of over-production and under-investment: they could. The costs arose, rather, because the sector was potentially the greatest resource in Russia's battle to stabilise its economy – and to create a more stable political order.

Failed on two counts

The Russian energy sector overall accounts for around 17 per cent of GDP. Reformers ought to have exploited this wealth in two ways: first, through taxes, as occurs in most energy-rich countries; and second, by privatising them either at a fair price or not at all. The government has failed on both counts. Despite the best efforts of western economic advisers, energy tax revenues are still a pitifully small share of GDP by international standards.

Worse, large chunks of the most lucrative companies now seem to have landed in the hands of a narrow clique of politicians, company insiders, and favoured banks. To this day, few observers quite understand how 60 per cent-plus stakes in companies such as Gazprom came under private ownership in the past few years. But even the more visible recent anctions of government shares in energy companies have largely taken the form of insiders doing all they can to prevent nonfavoured outsiders from competing.

The costs of this opaqne and ineqnitable transfer are not merely financial – although the financial costs are large enough. The majority of the public has been treated to a working illustration of Pierre-Joseph Proudhon's famous maxim that "property is theft". That may well take its toll in the results of the upcoming parliamentary and presidential alections. In the longer term, it must lower the chance of Russia overcoming its present lawlessness and corruption.

The shape of germs to come

As Mr Tom Lehrer, the satirical American songwriter, put it, canny doctors choose to specialise in "diseases of the rich". In fact, most do, he might now have said. For years, the medical efforts of developed countries, and of many pharmaceutical companies, have been increasingly directed towards combating heart disease, cancer and other illnesses of older people in rich countries.

However, many scientists now warn that people should be afraid once again of an eoemy which many in industrialised countries regarded as well beaten – the humble microbe. After half a century in retreat, many strains of bacteria and viruses are becoming resistant to antibiotics and vaccines. Such predictions, while easily exaggerated, have increasingly stroog foundation: some broad-spectrum antibiotics are now near-useless.

In developed countries, the concern is that infectious diseases, from colds to tuberculosis, could once agaio pose a serious threat to public health. At present, three quarters of deaths in these countries are due to non-infectious illnesses, particularly heart and lung disease. But if new drugs are not discovered, doctors fear that illnesses now seen as trivial could become fatal, and routine operations become hazardous.

That could make a dent in the ever-lengthening lifespans which people in developed countries now take for granted. In the past 150 years, average life expectancy in developed countries has almost exactly doubled, from about 39 years to more than 75 years. Of that rise, about 10 years occurred since the end of second world war when antibiotics became available. Politicians worry that even a small setback could prove politically explosive, as people are not well accustomed to the death of children and teenagers, particularly from illnesses not hitherto regarded as life-threatening.

Poorer countries

In developing conntries, the worries are different. Infectious disease has always been a horror; the fear is that resistance to drugs will make it worse. Of the 51m deaths in the world last year, a third were due to infectious and parasitic diseases – the overwhelming majority in poorer countries.

Megacities

However, solutions are not easy, because the problem has many causes. While resistance was bound to emerge eventually, several factors appear to have hastened it: the dramatic increase in international travel; the profligate way some antibiotics have been prescribed; and many patients' failure to complete a full course of drugs. The United Nations also points to a future hreeding ground: the rise of "megacities" with over 10m people, particularly in developing countries. In 1950, there were just two, but the UN reckons there will be 24 by 2000.

Governments alone are unlikely to have the resources to develop new drugs. Nor should they try, many would argue; pharmaceutical companies should have every reason to do so. But governments ought not to take this for granted, and should consider carefully whether the incentives for companies to tackle these new threats are adequate, compared to the rival attractions of developing treatments for the elderly in developed countries.

First, they may need to review prescription practices. Sloppy prescribing, fostering resistance, is one way in which poorly-implemented public policy can dissipate the value of private sector research and development. Second, governments need to look carefully at whether patent protection is adequate, to allow companies to appropriate the benefits of their research. Similarly, they should also examine whether companies are compensated for the "spillover" benefits to societies – rich and poor – if new drugs are distributed widely in poor countries at subsidised prices.

It is also important that governments and UN agencies continue to tackle the conditions in which infectious disease breeds, particularly in the megacities. Unfortunately, there will be no single magic bullet to solve the problem of drug resistance. But equally, governments should not regard themselves as impotent.

A rich seam of controversy

The successful privatisation of CVRD will pave the way for other sell-offs in Brazil, but it raises some difficult issues, says Angus Foster

It is expected to be Latin America'a biggest privatisation. The sale of the Brazilian government'a 51 per cent stake in Companhia Vale do Rio Doce (CVRD), the natural resources group, could raise up to $5.5bn.

A successful sale is crucial for Brazil's privatisation programme, which has been dogged by political and bureaucratic delays. President Fernando Henrique Cardoso wants CVRD to pave the way for further sell-offs in the country'a buge electricity and telecommunications sectors.

But the sale raises difficult issues for the government. It is keen to maintain the group's social role in opening up Brazil'a more underdeveloped regions while maximising the proceeds from the sale.

"CVRD is a big test of will for the government and its capacity to get privatisation moving," says Mr Roberto do Valle, president of Citibank in Brazil, which leads one of nine consortia bidding to advise the governmant on selling the company.

CVRD is one of the wo... 's biggest natural resources group. Founded during the second worl.. war to provide iron ore to the US steel industry, the company is the world's largest iron ore producer and exporter. It owns mining and exploration rights worth an estimated $40bn, including Carajás, the world's biggest iron ore mine, with reserves sufficient for 500 years under the Brazilian Amazon.

It has diversified to become Latin America's biggest gold producer. It is one of Brazil's biggest aluminium smelters and has significant stakes in Brazil's biggest steel companies. And the group is involved in forestry management where it and associates own 600,000 hectares of land, mainly growing trees for paper pulp.

CVRD also has interests in rail, port and shipping facilities which it built for itself but which now carry third-party traffic. Last year the gronp's rail system carried more cargo than the rest of Brazil's railways combined.

The government has gradually reduced its stake in the company over the years. The 49 per cent of the shares not owned by the state are split between local pension funds, Brazilian private investors and foreigners.

Brazil's privatisation rules set a lengthy schedule for each sale, and the earliest possible date for CVRD to be sold is the second half of next year. Competition for the role of government adviser has been intense and the winner is expected to be chosen next month. Most leading US and European investment banks are involved, attracted by the offer's prestige and fat fees.

Unlike most Latin American companies that have been privatised, CVRD is already considered efficient by world standards. Since 1990 it has cut its workforce by about 25 per cent to less than 16,000 people, and sales per employee are now claimed to be higher than at RTZ, the British mining group.

Mr Anastácio Fernandes Filho, vice-president, says privatisation will still bring benefits. As a privata company, CVRD will have more freedom to invest in new projects and will not need permission to set up joint ventures or move into new areas. "The market is today demanding more and more agility. You cannot provide that as a state-owned company," he says.

The main difficulty for the government is to strike a compromise between getting a good price for the sale and meeting other, mainly social objectives.

For example, CVRD has been an important agent for development in poorer parts of Brazil. The railway it built to the Carajás mine in the north opened np an important transport corridor to the region.

The company's statutes also stipulate it should transfer up to 8 per cent of net profits into health, environmental and infrastructure projects in areas where it operates. These are part donation, part loan, and last year totalled $22m compared to net profits of $645m.

The government wants to preserve its development role, since CVRD transfers are an important source of funding in some parts of the country. Some union leaders and employees want the company'a social role guaranteed by demanding pledges from CVRD's future shareholders, or by the government retaining a golden share. But if the company is required to continne such activities, it is likely to depress its sale price – leaving the government and its advisers open to the charge that CVRD is being sold on the cheap.

Some analysts suspect CVRD's diverse interests could be worth more if split up. However, to preserve its social role the government wants to sell CVRD as a single company, according to Mr Paulo Libergott at the National Development Bank, which oversees Brazil's privatisatioo programme. "If you split the company you might get a better price, but yon lose many of the benefits to society because you would lose CVRD's development role," he says.

Another policy aim that could reduce the price for CVRD is the government's desire to attract smaller domestic investors and foreign institutions. Neither group has been mnch interested in previous privatisations, which were through closed auctions or trade sales. Yet both groups will be crucial for the success of future offers, such as the disposal of the huge electricity sector. Wider share ownership would also help strengthen Brazil's capital markets.

The final sale model for CVRD will be decided by the government, the development bank and the financial adviser to the sale. For many bankers, an ideal strategy would be a global offering of about half the government's 51 per cent stake next year, with shares reserved for local retail, institutional and foreign investors. The rest of the stake could he sold about a year later, depending on market conditions. Selling it in two slices would make the offering more digestible for global stock markets, and probably improve the price.

With CVRD's market valuation now at about $11bn, the government's stake would be worth about $5.5bn. Valuing CVRD will be one of the winning adviser's most difficult tasks. There is oo agreement on the best valuation method, and some analysts say the company's huge mining and forestry reserves are not reflected in its stock market price because they are oot yet producing income. Others argue that CVRD's share price of 22 times its earnings for oext year, and 10 times its gross cashflow, is in line with, or even above, such ratios for its international peers.

The global offering model would probably he welcomed by CVRD itself, which is concerned that a trade sale to one of its iron ore competitors in Australia or a big client could be damaging. Its clients, like the Japanese steel industry, might try and artificially dampen iroo ore prices.

"In iron ore we have big clients and big competitors. Neither must be privileged since that is not in our nor the country's interest," according to Mr Fernandes Filho, the company's vice-president.

The drawback of a wide-spread sale to disparate investors, known as "pulverisation" in Portuguese, is that the sale proceeds would probably be lower. The government would forfeit receiving the premium it could demand from selling control to one or a small group of investors.

And such a sale strategy could allow Brazil's other state-owned companies to emerge as the company's higgest shareholders. They already own 16 per cent of the group and could end up effective controlling it without paying a premium for that control.

"Control would simply pass from the government to certain state-sector pension funds, which would not be seen kindly by foreign investors," according to one Brazilian banker.

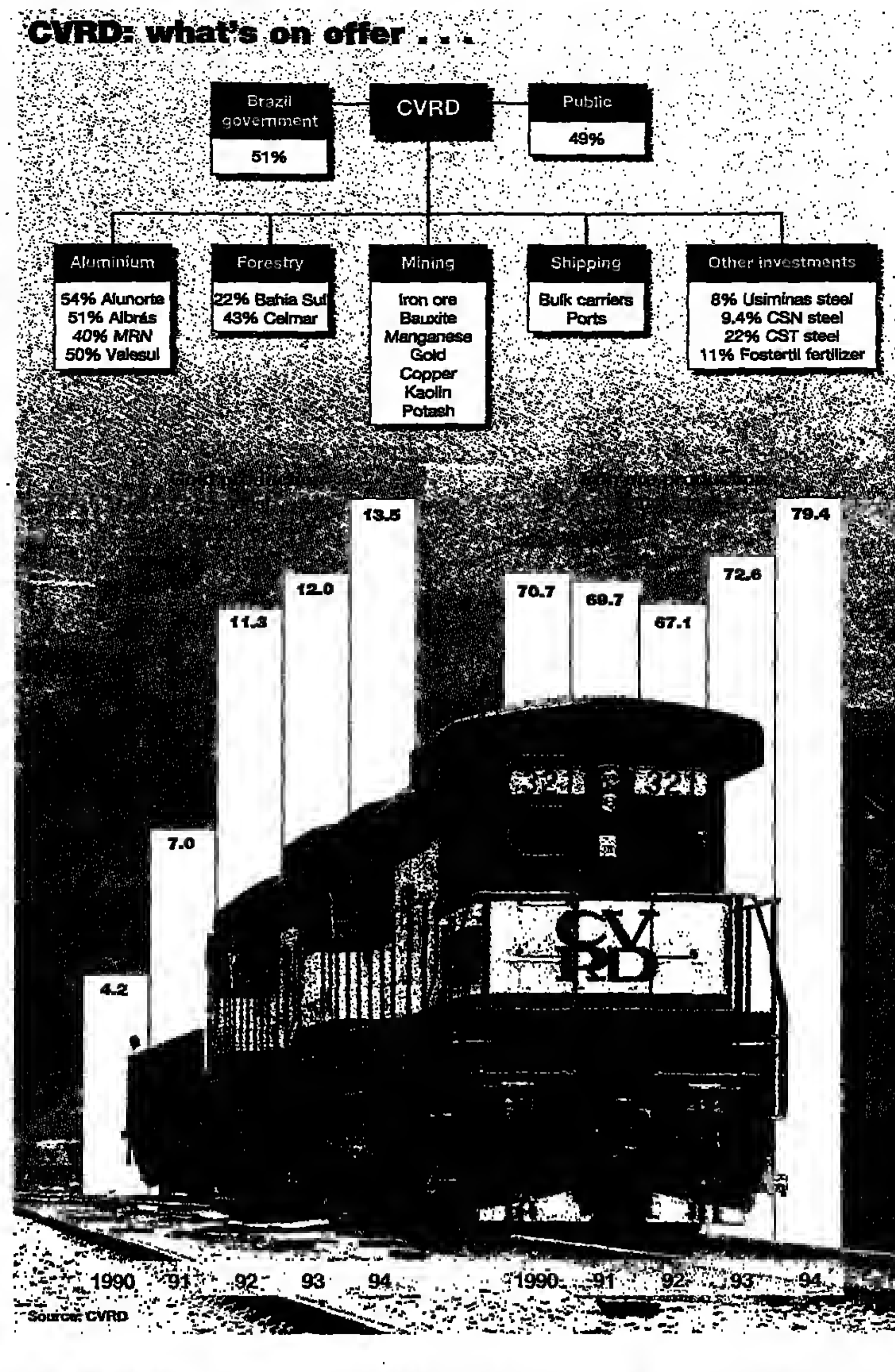
The government is especially concerned about any reduction in the sale proceeds, since its actions are the object of intense scrutiny by Congress. The sale faces stiff opposition from a group of politicians from the nine states in which CVRD operates, particularly those from Brazil's poor north. They fear that a privatised company will be less easy to influence when it comes to winning investment for their states. In an attempt to block the sale, they are expected to complain that CVRD's offer price is too low.

They have two strong cards. One is that CVRD has not yet prospected in many of its concession areas, so the true value of its reserves is unknown.

The other is that the usual method of valuing assets such as 500 years of iron ore reserves is likely to raise political fears that the company is being sold too cheaply. Such reserves are normally valued by how much income they can generate in the next 30 years – allowing opponents to claim the buyers are getting 470 years of Brazil's natural resources free.

One banker says the government will have to find ways of buying off such opposition. Transfering some privatisatioo proceeds to northern states which are most opposed to CVRD's sale would be one solution. Another would he to meet Coogress's request for a bigger role in monitoring the privatisation.

"This means there will probably be delays," says a banker. "But Congress can only slow down the process, they can't stop it any more."



Source: CVRD

· O B S E R V E R ·

Moi's true story

■ From the tantrums of an English princess to the rantings of an African president. Having exposed Princess Diana to the public eye in his two bestsellers, royal author Andrew Morton is starting work on an even more touchy assignment – a biography of Kenya's 71-year-old President Daniel arap Moi.

Moi, whose belligerent pronouncements have had jaws dropping in Western chanceries, is overdue for a hard-hitting biography.

Nevertheless, there is some puzzlement that Moi is giving his support to the venture. He has contacted people like Sir David Steel – not one of his greatest fans – asking him to assist Morton.

Morton is certainly not the most obvious choice of biographer. He knows nothing about the intricacies of African politics and has made his name, and fortune, recycling gossip about the British royal family.

On the other hand, he did a jolly good job for Lady Di's reputation with *Diana: Her True Story*, and *Diana: Her New Life*.

So perhaps Moi is hoping that Morton can work the same sort of magic on his own reputation which has been on the skids for some time. If Morton really wants to be taken seriously as a biographer then he could not have picked a mnch tougher test.

Bank bunk

■ The ability of bankers to trip over their own advertising never ceases to amaze. The latest victim is Credit Suisse, which has been running a series of glossy commercials promoting its domestic lending programme.

One features a young, dynamic and beautiful fashion designer going about her glamorous business, accompanied by the treacly slogan: "We get involved because we believe in your goals".

The commercial caught the eye of one Erica Matile, a young, dynamic and beautiful Zurich fashion designer. So she approached Credit Suisse, which just happened to be her bank anyway, for a loan to expand her business. The branch manager immediately made clear that he was not interested. This was confirmed in writing a few days later. "The specific characteristics of your sector together with its incalculable risks make it impossible for us to make an unsecured loan," she was told.

Credit Suisse communications boss Jörg Neef said Matile had taken the commercial too literally. The bank was just trying to show that it backed good ideas.

Union Bank of Switzerland has Sir John Gielgud and Alan Bates reading poetry in its television commercials. Aspiring poets should obviously think twice about approaching UBS.

Another bow

■ *Another 50th anniversary*, another set of luminaries. Tomorrow it is the turn of Unesco, in Paris. And what a catholic organisation it is. One of the keynote speakers kicking off the event is Amadou Mahtar M'Bow, the Senegalese former director-general, whose controversial 12-year term of office prompted the US, the UK and Singapore to resign their membership. Well, you could say he made his mark.

Spoilt for choice

■ Democracy can be a baffling business, as Russia's voters may – or may not – be about to discover.

If they go to the polls on December 17, they will confront a list of 42 parties representing every shade of the political spectrum – and some beyond it.

There will be parties of beer lovers, women, and lawyers, communists, Moslems, and ecologists. Or voters could support a party run by Dzhuna Davitashvili, a famous mystic reputed to give the ailing President Boris Yeltsin the odd spiritual tickle. Then there's always Vladimir Zhirinovsky, the inflammatory nationalist, whose latest theory is that Italian hoteliers masterminded the turmoil in the former Yugoslavia to wreck a rival tourist trade.

World-weary Russians may reflect that politics was much simpler when there was only one party. The constitutional court, currently considering the legality of the Byzantine electoral rules, may yet conclnde the same and save them all the bother.

Tickled pink

■ For a second, the world stood still. Gerhard Schröder, the prime minister of Lower Saxony and not so young *enfant terrible* of Germany's opposition Social Democratic Party, had the attention of all those sitting out the ponderous proceedings of an SPD annual congress.

"I am a candidate," he declared at the end of a rousing and unrepentant defence of his doubtful loyalty to party leader Rudolf Scharping. But for what? And when? Was Schröder really tearing up the script of the Congress and declaring that he would stand against Scharping?

No such luck. The German joke was explained as a beaming Schröder returned to the microphone. His candidacy was for tha SPD managing board (his name having been on the list of candidates for this 45-strong panel of worthies for weeks).

The Financial Times

100 years ago

Yankee banky panky

[Letter to the editor] Sir - Your judgment with regard to the American Railway Market has been so uniformly correct, and those of your readers who have followed it have made, or saved, so much money by the advice you have been so good as to give them, that your views on the sobject cannot fail to command attention. In your leading article to-day, I notice that you are of opinioo that the Receivership stocks had better be left alone. No doubt, Sir, it may be safely said of those stocks what the late lamented Jay Gould said of a certain cemetery. "Those who are out of them don't want to get in, and those who are in them can't well get out." But why is it that such roads as the Atchison, Erie, Reading &c are so constantly getting into difficulties? The answer is not far to seek. The recent history of these roads tends to prove that they are controlled by financiers – "bosses," I believe is the Yankee term – and are therefore managed not in the shareholders' interests, but in those of rapacious and unscrupulous speculators, who, being "in the know," can easily profit by the enormous fluctuations which they themselves produce.

FINANCIAL TIMES
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Federal machine starts to creak as 800,000 pack up and go home

Jurek Martin reports how the US budget impasse hit everything from the White House kitchen to the National Zoo

On the dot of 9.30am, the word came down from Dr Alice Rivlin, head of the Office of Management and Budget, that about 150,000 federal employees in Washington could pack up their briefcases and sandwich bags and go home.

The same edict applied to another 650,000 nationwide, together equal to about 40 per cent of the federal civilian workforce.

The effects on government caused by the budget impasse between the Clinton administration and congressional Republicans were immediate. Mr Nicholas Burns, the State Department spokesman, stayed at his desk, but his daily briefing was cancelled because the technicians who light his podium were deemed dispensable.

The press office of Mr Larry Summers, treasury under-secretary for international affairs, was down to a staff of four from the regular 17. One State Department secretary merely said: "I'm outta here in five minutes."

Over at the White House, Mr Mike McCurry, the press secretary, was still in business, preparing for his daily joust with Mr Tony Blankley, spokesman for Mr Newt Gingrich, speaker of the House of Representatives. But the White House kitchen was down to one chef instead of the usual four.

The Commerce Department said it would issue no economic statistics while the federal government was shut down. The Federal Reserve, which is not affected by the budget impasse, will publish data on industrial production and monetary aggregates.

Most of Monday had been spent deciding who should stay and who should go.

The Justice Department determined it could get by temporarily with an antitrust legal division of 194, down from 918, and the Internal Revenue Service on only 8 per cent of its total staff, though the printing of tax return forms would continue. All 30 State Department historians took their leave.

Yesterday was one of those Washington days not made for going to work or touring the sights of the capital, with a cold, driving rain that could easily turn to snow. But, at least after the shutdown, the evening commuting promised to be a breeze.

The law as it affects parking did not appear to be functioning much in the city, contrary to local government warnings. A soggy foot tour revealed 19 meters with money in, 49 without and five broken – but only one lonely pink violation ticket tucked under windshield wipers.

Tourists had a rough time. Nobody could go up the Washington Monument and the National Gallery, now showing a wonderful Vermeer collection, was only admitting pre-booked school and group tours. The Kennedy Centre for the Performing Arts was closed all day but its evening concerts and plays were still on because of private sponsorship.

Across the country the story was similar. The Statue of Liberty off Manhattan received early boat-loads of tourists, but then shut. National parks were closed and left to the birds, bears and fishes, and the National Zoo in Washington was left to the animals and their keepers.

Blasé Los Angeles seemed less affected, with local television news sandwiching the government shutdown between reports of a grounded traffic helicopter, more essential to the city's functioning, and the birth of a green cat in Denmark.

The queues outside the immigration and passport offices were as long as usual, even though the few remaining staff were only handling emergency cases.

Civil servants, in spite of promises that they will eventually be paid, mixed concern over their mortgage and credit card bills with anger that they should be so shabbily treated.

Ms Pat Woodward, of the International Trade Administration, reflected that the shutdown was a "fitting" event for such a "miserable, rainy day . . . I almost hope they let us stay out for a few days so the impact can be felt. I'm tired of people saying government is the root of all evil when we work so hard. Let them find out."

Clinton stands ground, Page 8

$5.2bn packaging merger wins approval of Brussels

By Emma Tucker in Brussels

A merger creating the world's most powerful packaging company has been formally cleared by the European Commission after the two companies involved agreed to sell large sections of a core business.

The $5.2bn acquisition by the US's Crown Cork & Seal of France's CarnaudMetalbox was approved after Brussels officials were persuaded that the deal would not harm competition in Europe.

However, the two leading packaging companies must sell five aerosol can plants located in France, the UK, Italy, Spain and Germany that together represent about 22 per cent of the market for aerosol cans in the European Economic Area.

"We have known from day one that the merger investigation would hit aerosols," CarnaudMetalbox said. "The market share was just too big."

CarnaudMetalbox said it was now waiting for further details from the Commission on the deadline for sale of the five plants. The two companies hope to be able to complete the merger some time over the new year.

The Commission was initially worried that the merger, the biggest to come before it, would close off various packaging sectors to competitors, particularly in the market for tinplate aerosol cans, where the two companies' total share of the EEA market reached roughly 65 per cent in 1994.

The five aerosol plants that must be sold are CC&S's aerosol plants in west London, and Voghera in Italy. CarnaudMetalbox must divest plants in Laon, France, Reus, Spain and Schwedt in Germany.

"With this divestiture, which will be closely monitored, the Commission believes that the two partners will no longer have a dominant position in the EEA market for tinplate aerosol cans," the Commission said.

The Commission also looked closely at the effect of the merger on food cans, in particular in the Benelux region where CC&S has a market share of 20 per cent.

However, it concluded that the merger would not create a single dominant position thanks to strong competition from other companies inside the region and exporters from neighbouring countries.

After the merger, the new company will have a market share of less than 40 per cent in food cans and will face strong competition from Schmalbach-Lubeca which has a market share of 30 per cent to 35 per cent.

Brussels had been concerned that the deal would create a company strong enough to drive down prices for tinplate and tin-free steel.

But the Commission concluded that the new enterprise's position would not be greatly different from its main competitors in aerosol cans and food tins.

Lastly, the Commission raised no objections to the effect of the merger on the market in bottle tops and can tops.

Sony plans PC alliance with Intel

Continued from Page 1

technologies. While these planned developments will be aimed at future products, the alliance will also enable Sony to make a swift entry into the PC market.

Intel is expected to provide "motherboards", the main circuit boards, of Sony's home PCs.

Although Sony declined to comment specifically on what its first PC will be like, it is expected to be a multimedia PC that will combine Sony's expertise in audiovisual products with Intel's high performance chips.

"By fully integrating the benefits of audio, video, computer and communications technologies, we hope to fulfil the dreams of a new generation of consumers who I call the Digital Dream Kids," said Mr Nobuyuki Idei, Sony president.

Sony is a leading maker of many key PC components such as displays, semiconductors and CD-Rom drives, but does not make home-use PCs.

As the main markets for conventional consumer electronics products, such as stereos and VCRs, have become saturated, Sony has seen its traditional customer base shift attention and money away from its core products to information technology equipment, notably PCs.

It will face an intense battle in the home PC market, where major computer manufacturers are already competing vigorously.

3M to cut 5,000 jobs in restructuring

Continued from Page 1

enough." It blamed intense price competition over a period of years, from rivals such as Sony and TDK of Japan and BASF of Germany.

The business will be closed over the next 12 months. 3M said that of the 5,000 job losses, which will be concentrated in the tape business, 3,000 would be in the US and 2,400 in its home state of Minnesota. Only about half of the US job losses would take the form of redundancies.

3M said it had no plans for further demerger. It said: "There are cultural issues here. You cannot ask for innovation from people while they're worried about their jobs. No-one's talking about taking the process further."

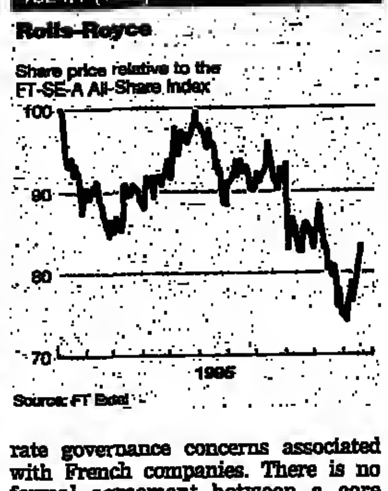
The charge of $600m pre-tax will be taken in this year's fourth quarter. Pre-tax profit in last year's fourth quarter was $539m.

THE LEX COLUMN

Rollercoaster

FT-SE Eurotrack 200:
1524.1 (+2.2)

Rolls-Royce



Source: FT Extel

Rolls-Royce shareholders have had precious little to celebrate recently, making yesterday's big aero-engine order from Singapore Airlines particularly welcome. Rolls' new Trent engine was previously in danger of becoming the also-ran in the worldwide battle with Pratt & Whitney and General Electric to supply Boeing 777s. The surprise Singapore order puts Rolls into second place. The prestigious contract should help pull in orders from other airlines; achieving high volumes is essential if Rolls is to enjoy the economies of scale necessary to keep its costs competitive.

Nevertheless, the Singapore deal is not going to lead to quick profits. Aero-engines are a cut-throat business with companies so desperate to win contracts that prices are slashed. In Rolls' case, the actual value of the order is not the £1.2bn quoted; that is merely how much 157 engines would cost if bought at list price. In fact Singapore Airlines is enjoying a discount and the total is in any case dependent on options being translated to firm orders. Where the industry makes its profits – on the classic model of razors and razor blades – is in selling aero-engine spare parts. The big difference is that, while Gillette has to wait only a few weeks to sell blades, Rolls typically waits seven years to sell spares.

Nobody denies yesterday's deal was good news. Moreover, following a slide in Rolls' share price in the past two months, the stock is no longer as overvalued as it was. Nevertheless, Rolls still enjoys a premium rating, which is hard to square with the difficult competitive conditions it faces.

Pechiney

The sale of Pechiney, the aluminium group, bears some of the hallmarks of a classic French privatisation flop. The aluminium cycle is turning downwards, the group's restructuring is not yet completed and the company has recently been rapped for breaching accounting rules.

Still, the management, headed since last year by Mr Jean-Pierre Rodier, is at pains to make the deal attractive to international investors. The simplified structure of the group which will result from buying out the minority shareholding in Pechiney International, its packaging subsidiary, reflects Mr Rodier's more focused strategy. Furthermore, the structure of the privatisation should go some way to assuaging some of the corporate governance concerns associated with French companies. There is no formal agreement between a core group of shareholders to protect the company from takeover. These "noyaux durs" of cross-shareholdings are frowned upon by international investors, who rightly worry that they reduce managements' incentive to maximise shareholder value. But Mr Rodier's claim that this will be an Anglo-Saxon-style privatisation is somewhat overblown. Even without a formal pact, pals like Electricité de France and AGF, the state-owned insurance company, will account for around 20 per cent of holdings.

Presentation is important, but the deciding factor is likely to be pricing. At a sizeable discount to Monday's close, this looks realistic – that is to say, cheap.

USAir

USAir remains an orphan. One potential parent, United Airlines, has pulled out of takeover talks; the other, American Airlines, is not interested unless someone else is. That leaves USAir, alone, facing big problems. Its labour costs are some of the highest in the industry. This has not stopped it successfully defending its core business – lucrative short-haul East Coast routes – from low-cost competitors, but shareholders have had to pay the price in big losses. The company has only recently moved into profit, and this means little: any airline ought to make profits at a time when passenger numbers are growing faster than capacity and price-cutting has been restrained.

USAir's chances of making quick progress on labour costs now look slight, especially with its chief executive due to stand down and no replacement in sight. And given that United, which has been successful in negotiating big cost reductions with its unions, was daunted at the prospect of taking USAir on, lingering hopes of a bid from elsewhere look optimistic.

United or American could still, though, look at deals of another kind such as a code-sharing agreement with USAir. This would be a sensible alternative to a takeover, especially since airlines have often proved tricky businesses to put together. Code-sharing could bring many of the revenue improvements of a merger. And, conveniently for its partners, it would leave USAir's shareholders with the awkward problem of its costs.

Pension funds

The notion that pension funds should be compelled to vote at company's annual meetings is muddle-headed. Fortunately, Britain's National Association of Pensions Funds has stopped short of advocating such a policy – unlike the Labour party. But by arguing that voting is a shareholder's "duty", it is coming close to such an approach.

For advocates of shareholder activism, compulsory voting has superficial appeal. Surely, they say, the more shareholders vote, the greater the accountability of management. This is nonsense. The more shareholders are compelled to vote, the more unthinkingly they are likely to vote. Those who cannot be bothered to investigate issues deeply will probably back the management as a matter of course. The net result? Less accountability. At present, a well-informed investor with a 5 per cent stake in a company can wield immense influence because only a minority tends to vote; if voting were compulsory, the ballot would be swamped by the votes of those who do not care.

None of this means shareholders should not vote. Quite the opposite: when the issue at stake is important, it is in shareholders' interests to vote. The alternative of selling shares in an underperforming company is becoming less viable with the growth of index fund management. That said, shareholder activists should concern themselves with the quality not the quantity of votes.

Additional Lex comment on Arjo Wiggins Appleton on Page 23

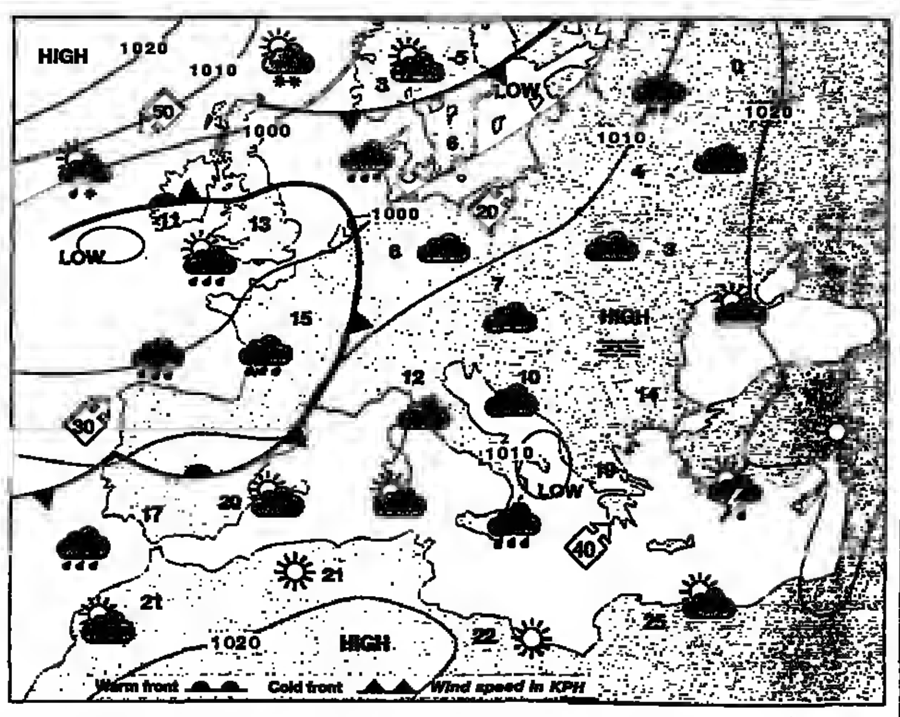
FT WEATHER GUIDE

Europe today

The British Isles will be unsettled with cloud and rain owing to a complex low pressure system. A frontal zone with the system will cause rain over the Benelux, France and the north-western Iberian peninsula. Scotland and north-western Spain will have strong winds. Another low on the Adriatic will cause plenty of rain in Albania and north-west Greece. The south-west coast of Turkey will also have rain. The Spanish costas, Sardinia and the Greek islands will be sunny. The Balkan region will be calm with patchy fog. Russia and the Ukraine will be cold. Sweden and Finland will have rain.

Five-day forecast

Cold air from northern Europe will move south across Denmark into Poland during the next couple of days. At the same time, mild and humid air from the Bay of Biscay will try to move into western Europe, leading to outbreaks of rain which could be heavy at times. Northern and eastern Europe will be unsettled with snow. Portugal and northern Spain will have occasional heavy rain. The Mediterranean region will be dry and mainly sunny.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum	Beijing	sun	15	Caracas	shower	29	Faro	rain	20	Madrid	rain	14	Rangoon	thund	32
		Celsius	Belfast	rain	8	Cardiff	shower	12	Frankfurt	drzzl	8	Majorca	fair	20	Reykjavik	clear	-1
Abu Dhabi	sun	31	Belgrade	sun	10	Casablanca	fair	20	Geneva	rain	11	Malta	fair	19	Rio	shower	28
Accra	fair	31	Berlin	fair	9	Chicago	snow	0	Gibraltar	sun	19	Manchester	rain	11	Rome	fair	18
Algiers	sun	22	Bermuda	shower	28	Cologne	rain	10	Glasgow	rain	8	Manila	thund	31	S. Frsco	fair	19
Amsterdam	shower	12	Bogota	cloudy	18	Dakar	sun	30	Hamburg	drzzl	7	Melbourne	fair	20	Seoul	sun	18
Athens	fair	20	Bombay	sun	34	Dallas	sun	18	Helsinki	rain	8	Mexico City	fair	21	Singapore	thund	28
Atlanta	cloudy	9	Brussels	fair	12	Delhi	sun	30	Hong Kong	cloudy	25	Miami	sun	22	Stockholm	rain	3
B. Aires	cloudy	25	Budapest	fair	10	Dubai	sun	32	Honolulu	fair	29	Milan	drzzl	11	Strasbourg	drzzl	9
B.ham	rain	12	C.hagen	rain	8	Dublin	rain	10	Istanbul	shower	18	Montreal	snow	-1	Sydney	rain	22
Bangkok	cloudy	33	Cairo	sun	24	Dubrovnik	fair	15	Jakarta	cloudy	32	Moscow	cloudy	-1	Tangier	fair	20
Barcelona	sun	18	Cape Town	sun	25	Edinburgh	rain	8	Jersey	cloudy	13	Munich	fair	5	Tel Aviv	sun	24
									Karachi	sun	33	Nairobi	thund	25	Tokyo	fair	16
									Kuwait	sun	28	Naples	sun	17	Toronto	snow	0
									L. Angeles	fair	22	Nassau	sun	25	Vancouver	rain	13
									Las Palmas	fair	24	New York	cloudy	9	Venice	cloudy	14
									Lima	cloudy	22	Nice	fair	15	Vienna	sun	10
									Lisbon	rain	18	Nicosia	sun	23	Warsaw	drzzl	6
									London	shower	14	Oslo	drzzl	2	Washington	cloudy	2
									Lux.bourg	shower	7	Paris	cloudy	13	Wellington	cloudy	18
									Lyon	drzzl	12	Perth	cloudy	23	Winnipeg	cloudy	2
									Madeira	fair	22	Prague	sun	5	Zurich	cloudy	48

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FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday November 15 1995

IN BRIEF

Geest profits may slip on banana glut

Geest, the UK banana group whose business has been plagued by disease and hurricanes, warned that oversupply in the final quarter would hit profits this year. The warning knocked 32p off the shares, which closed at 107p. The City of London cut forecasts for profits before tax from about £14m ($22m) to £9m this year, excluding exceptional charges of £7m announced yesterday and the £5m charge announced in the first half. Page 23

Brazilian banks suspended
Brazil's securities commission, the CVM, has suspended trading in shares of two of the country's biggest private banks and asked for clarification of reports that they are to merge. Page 20

Acquisition costs hinder Thomson
Thomson, the international publishing and travel group, posted a higher nine months' operating profit, but amortisation and financing costs for two 1994 acquisitions reduced net earnings. Page 20

Pechiney hits the road to woo investors
Mr Jean-Pierre Rodier, Pechiney chairman, has taken to the road to sway the investors who will determine whether he succeeds in taking the French aluminium and packaging group back into private hands. Page 21

Modest debut for Indonesia's Telkom
Shares in Telkom, the Indonesian telecommunications company, made a modest debut in their first day of trading, vindicating the government's decision to cut back the international tranche of the offer. Page 22

Thai telecoms maintain good health
Thai telecommunications companies have reported healthy third-quarter profits. This quashed speculation that a decrease in new subscribers and lower line usage was hurting the industry. Page 22

Weather-related losses blow GA off course
An upturn in UK subsidence claims, plus Caribbean hurricanes and severe weather in North America, swept nearly £40m ($63m) off nine months pre-tax profits at General Accident, the UK composite insurer. Page 24

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				Legrand	790	+	11
Rises				SLIC	619	+	30
Allianz	2714	+	49	Falls			
BMW	784.5	+	11.5	CGP	861	-	7
SAP AG	231.5	+	6	Radiotechn	250.1	-	8.9
Volkswagen	468.7	+	6.7	St Louis	1350	-	90
Falls				**TOKYO (Yen)**			
[illegible]	963	-	17	Rises			
[illegible]	562	-	13	Lion Corp	598	+	28
NEW YORK ($)				[illegible]	407	+	37
Rises				Seiyo Food	928	+	43
Apple Comp	[illegible]	+	[illegible]	Falls			
3M	[illegible]	+	[illegible]	Brother Ind	535	-	15
UAL	[illegible]	+	[illegible]	Chuo Tst	753	-	52
Falls				Green Cross	738	-	37
Cisco	[illegible]	-	3	**HONG KONG (HK$)**			
Intel	[illegible]	-	1	Rises			
USAir	[illegible]	-	[illegible]	Grand Orient	2.675	+	0.17
LONDON (Pence)				[illegible]	6.45	+	0.35
Rises				[illegible]	3.5	+	0.35
[illegible]	160	+	14	Falls			
[illegible]	432	+	31	HK Bldg Loan	18.3	-	0.6
[illegible]	160	+	29	Hopewell Hlds	4.475	-	0.2
[illegible]	104	+	27	Peregrine Inv	9.2	-	0.35
Falls				**BANGKOK (Baht)**			
[illegible]	460	-	17	Rises			
Geest	107	-	32	[illegible]	39.75	+	3.5
TORONTO (C$)				Thai CPF	39.0	+	3.0
Rises				[illegible]	89.0	+	8.0
[illegible]	[illegible]	+	[illegible]	Falls			
[illegible]	[illegible]	+	[illegible]	Central Pat	73.0	-	7.5
[illegible]	[illegible]	+	[illegible]	Thai Rayon	198.0	-	20.0
Falls				Tunicx	41.0	-	4.5
[illegible]	68	-	8				
[illegible]	7	-	[illegible]				
[illegible]	[illegible]	-	[illegible]				
PARIS (FFr)							
Rises							
[illegible]	729	+	32				

New York and Toronto prices at 12.30pm.

Anglo-French group issues warning as destocking by customers cuts sales volumes

Arjo Wiggins signals woes in paper industry

By Patrick Harverson in London

Arjo Wiggins Appleton became the second big international paper group in a week to signal its distress amid difficult European paper markets. It warned yesterday that pre-tax profits this year would be "materially" below its 1994 results because of a sharp decline in sales volumes.

The warning follows results last week from the Dutch group KNP BT, which has seen its profits squeezed by rising pulp prices and destocking by customers.

Arjo also announced it would make a provision of at least £100m ($158m) this year to cover restructuring of its European manufacturing operations.

The Anglo-French group said it had been planning the restructuring for the past year, but had brought forward the announcement to coincide with the warning because it did not want to unsettle the market twice within a few months.

Arjo's shares, which have declined recently amid concern about profits, dropped 11¼p to 194½p. Shares in Saint-Louis, the French paper and food group which owns 40 per cent of Arjo, fell more than 6 per cent to FFr1,350.

Analysts, who had already been lowering their forecasts for Arjo's earnings because of the poor trading conditions, reacted to the announcement by downgrading their estimates further. The group is now expected to make pre-tax profits, before restructuring provisions, of between £180m and £190m, compared with £217m in 1994.

Although Arjo had highlighted the problem of destocking when announcing its interim results in August, it said yesterday that destocking would last longer than originally thought. Arjo warned that demand would probably remain weak into 1996 as customers continued to run down stocks built up in 1994 and earlier this year when paper prices were rising rapidly.

The group said the drop in sales caused by destocking had left large parts of its European papermaking operations idle. Capacity utilisation in some areas is as low as 50 per cent.

The restructuring of European manufacturing, which mostly consists of the carbonless papermaking operations, was welcomed in the City.

Arjo has struggled to make good profits from the business for years – in 1994 assets of £845m generated an operating profit of only £85m – and analysts said a shake-up was long overdue.

Mr Alastair Irvine of Merrill Lynch in London said: "They needed to do something because the returns they were getting out of carbonless paper in Europe were pretty awful."

Mr Michael Brown of SBC Warburg said: "What this does is it recognises that Arjo's European paper mills are uncompetitive."

The restructuring is expected to close mills and lead to redundancies as capacity is cut substantially, but Arjo would not reveal details until employees had been informed.

The group expected to recoup the £100m spent on the restructuring within two to three years through improved margins and profits.

Lex, Page 23

Trevor Humphries

Pulp friction: Alain Soulas (right), chief executive, and Andrew Shaw, finance director, yesterday outlined the European restructuring

Deutsche banker quits for Merrill

By John Gapper and Nicholas Denton in London

Mr Guy Dawson, head of corporate finance at Deutsche Morgan Grenfell, is to join Merrill Lynch. His defection is the latest in a series by senior executives at London investment banks.

Mr Dawson, known for having led the recovery of corporate finance at Morgan Grenfell after the Guinness affair in the late 1980s, is to join Merrill Lynch next year along with Mr Justin Dowley, head of UK corporate finance at DMG. Large investment banks have been trying to hire executives from each other this year to build up their operations. DMG has been among the leading recruiters following Deutsche Bank's decision to integrate Morgan Grenfell.

Mr Rory Macnamara, a director of corporate finance at DMG, is also thought to have been offered a job by Merrill. But he has decided to stay at DMG, and was promoted to head of UK corporate finance at the company yesterday. Deutsche Morgan Grenfell has recruited several executives from SBC Warburg in its attempt to build a global investment bank. However, it recently lost Mr Alex Von Ungern-Sternberg, former Deutsche treasurer, to Barclays de Zoete Wedd.

Mr Michael Dobson, chief executive of DMG, said last night he was sorry to lose Mr Dawson and Mr Dowley. "We have hired a lot of people, and lost a handful we would rather have kept," he said.

DMG has created a corporate finance management committee to fill the gap. It will be chaired by Mr Peter Espenhan and include Mr Macnamara, and Mr Michael Cohrs and Mr Maurice Thompson, co-heads of equity capital markets. The company is thought to be considering creating a new post of head of investment banking, and has made initial approaches to executives at other investment banks.

The appointment of Mr Dawson and Mr Dowley underlines Merrill Lynch's ambition to compete in the UK market following its acquisition of Smith New Court this year. Mr Dawson will also oversee Merrill's pan-European teams of advisers. Mr Kevan Watts, head of investment banking for Merrill in Europe, said that within 10 years he expected Merrill to have as strong a presence in UK corporate finance as in the US market.

Liffe to make offer to LCE members in exchange merger deal

By Alison Maitland and Richard Lapper in London

Europe's two leading markets for financial and soft commodity futures announced yesterday that their merger should be completed by next July.

The London International Financial Futures and Options Exchange (Liffe) is effectively taking over the London Commodity Exchange (LCE), with an offer to LCE members of either cash or cash and a new class of Liffe shares.

Liffe intends to acquire the LCE's 8.1m shares at net asset value, currently worth about £9.5m, said Mr Daniel Hodson, Liffe chief executive.

The deal marks a further consolidation of the world's derivatives exchanges and is expected to strengthen London as an international financial centre.

Mr Hodson will be chief executive of the merged exchange and the job of Mr Robin Woodhead, LCE chief executive, will disappear. However, Mr Hodson said: "We hope very much that Robin, who has done an outstanding job, will continue to play a key role in the development of the LCE and Liffe as a whole."

The exchange will be called Liffe, but commodity contracts will initially retain the LCE name. No job losses are planned among the LCE's 82 staff.

Mr Hodson said a merger with London's International Petroleum Exchange was "not under discussion". The LCE had held merger talks separately with Liffe and the IPE.

Liffe and the LCE will share premises as soon as possible. Liffe is "within sight" of finding a second trading floor near its Cannon Bridge site. It wants to expand from 32,000 sq ft to 55,000 sq ft. In the longer term, it is looking to build up to 100,000 sq ft to house the merged exchange.

New Liffe in London, Page 24

Bayer to buy Monsanto's plastics arm for $580m

By Jenny Luesby in London

Bayer, the German chemicals company, yesterday fought off at least eight rivals to clinch the $580m (£367m) acquisition of the engineering plastics business of Monsanto, the US chemicals company.

Monsanto, which is the world's third largest producer of the engineering plastic, acrylonitrile butadiene styrene (ABS) – and expects a 1995 turnover of $700m from the business – announced its intention to sell it several weeks ago. Monsanto said it had been unable to make sufficient money on the product.

Other bidders included the world's leading ABS maker, GE Plastics, and an alliance between Bayer's German competitor, BASF, and Huntsman of the US.

ABS is a difficult plastic to process but the main problem for European and US producers has been the take-off in Asian production.

The plastic is used in car dashboards, computer housings, telephones, toys and electronic and electrical appliances, and the Asian market has grown rapidly. However, this prompted a surge in global capacity, which stands at 4.95m tonnes but is forecast to reach 7m tonnes by 2000.

Most of this expansion is in Asia, where Chi Mei, Formosa Plastics, Grand Pacific, Japan Synthetic Rubber, Taita and Toray Plastics are all expanding their ABS output. The area is already a net exporter.

Bayer, which sells most of its ABS in Europe, hopes that by expanding its operation to the US it can better survive in a market that it said yesterday "remained difficult".

Bayer said the acquisition would more than double its annual ABS capacity to 550,000 tonnes. Its ABS business, and that of Monsanto's, were profitable, the company said, although both were below Bayer's target profitability of a 10 per cent return on sales.

Unlike Monsanto, Bayer produces a wide range of plastics. It said yesterday that Monsanto's ABS business would enable further economies of scale, and spread its research and development costs over more sales.

The biggest benefit would arise from being able to market the ABS to car and appliance producers along with other plastics.

"Carmakers like to buy the plastics for their dashboards, bumpers, facings, seat-foam and rubber from the same producer, and this acquisition has filled out Bayer's range in the US," said Bayer.

Bayer will acquire four of Monsanto's ABS manufacturing sites, in Ohio, Iowa, Quebec and Belgium. It currently manufactures ABS in Germany and Spain.

The only part of Monsanto's ABS manufacturing business in Asia was a small joint venture in Thailand, but this will be sold to its joint venture partners, Premier Enterprise.

Bayer will pay cash for the business. At the end of September its cash pile stood at DM5.3bn ($3.8bn). Both companies said yesterday they expected the deal to be concluded by the end of the year.

Barry Riley

Pulling the profits out of the fire in Tokyo

Investment managers dream of a world without currency risk, but if they are going to invest in Japan they have to take it on the chin – or hedge it out.

Data newly released on the third-quarter performance of UK pension funds provides some interesting insights into the extent to which British investment managers are willing to hedge.

In the US hedging is more common, and indeed, many global portfolios are combined with complex currency overlays so that the currency risks can be managed separately. But a research study by WM, the performance measurement consultants, of US-domiciled global equity portfolios is apparently going to cast doubt on the efficacy of such hedging strategies.

British pension funds have not been attracted by long-term hedging strategies. Although hedging can reduce the volatility of returns, British funds are more risk-tolerant than their US counterparts because their solvency is not directly measured in terms of short-term market values.

But specific, short-term hedging opportunities may be a different matter. The particular challenge to the Tokyo stock market in the past spring and early summer was that Japanese companies were threatened with ruin by an overvalued yen, which dipped below 80 to the dollar.

UK pension fund portfolios were underweight in Japanese equities anyway. But their remaining exposure faced a logical dilemma: if the Tokyo market were to recover it would only do so if the currency declined. Unhedged gaijin investors might therefore gain little, if anything.

Indeed, during the third quarter, as the yen strengthened by 15.5 per cent, the Tokyo market rallied by 20.5 per cent, as measured by the FT/S&P-A Japan Index. But in sterling the gain was only 4.2 per cent (and much the same in dollars).

The potential benefit from hedging may in fact have been even greater because at present there is a "carry" of 6.2 per cent a year, or about 150 basis points a quarter, reflecting the wide gap in short-term interest rates. However, many of the British funds may have been hedged out of yen into dollars rather than sterling because the fund managers still doggedly believe in a strengthening dollar.

> British funds are more risk-tolerant than their US counterparts

Early results from Caps, the other leading measurer in the UK, show a third-quarter return in Japan of 7 per cent, suggesting that there was very little hedging. Figures from WM for 25 big funds show the same result.

But WM also publishes performance results for its "WM 2000" universe of smaller pension funds. The average third-quarter return in Tokyo here is 9.1 per cent and the median return is 11.2 per cent. This implies that the smaller funds have been the most extensively hedged.

The median return here would suggest a typical hedging level of about 40 per cent. Only the most aggressive managers would ever take out a 100 per cent currency hedge, but some did last summer. Most, though, were probably scattered between zero and 50 per cent.

Care is needed, because London managers usually hold skewed portfolios in Japan, being light in many of the financials and utilities. So they do not perform in line with the index in the short term.

Other things being equal, however, a full hedge between July and September would have been worth about 60 basis points on overall portfolio performance, given that the typical fund's exposure to Japan is only about 4 per cent. That is a worthwhile contribution which will in due course push certain houses higher up the 1995 performance tables.

At other times this year, however, hedges against yen exposure would have lost money. In the first quarter, for instance, a Tokyo index return of minus 7 per cent might have been worsened to minus 16 per cent. In fact, UK funds returned minus 10 per cent between January and March. There are always swings and roundabouts, but we should not confuse these with specific gains secured and banked through precise market timing.

However, managers who were well hedged last summer will have a good case for reassuring doubtful pension fund trustees that this was a logical exercise in prudent risk management rather than a dangerous lurch into currency speculation.

INTERNATIONAL COMPANIES AND FINANCE

Brazilian banks deny merger rumours

By Jonathan Wheatley in São Paulo

Brazil's securities commission, the CVM, has suspended trading in shares of two of the country's biggest private banks and asked for clarification of persistent reports that they are to merge.

Directors of Banco Nacional and Unibanco, respectively Brazil's fifth and sixth biggest private banks, have strongly denied rumours that the two were to join to form the biggest private bank in Latin America, or that Unibanco would buy Nacional's retail operations, leaving a rump merchant bank in the hands of Nacional's present controllers.

The CVM said it suspended trading to protect minority shareholders from potential losses resulting from the lack of information on any deal.

This is the third time the CVM has asked Nacional and Unibanco to respond to reports of a possible merger. The CVM superintendent, Mr Wladimir Castelo Branco, told reporters that trading in the banks' shares would not resume until the subject "has been buried once and for all". The suspension has a maximum limit of 30 days.

Speculation that the two banks were to merge has been strong for some months. However, talk of synergy and mutual economies of scale has given way recently to the prospect of a virtual takeover of Nacional by Unibanco.

Nacional is understood to have had liquidity difficulties in recent months; press reports say the bank has been borrowing $3.8bn a day to balance its positions, or more than three times its net worth of $1.1bn.

BRAZILIAN PRIVATE SECTOR BANKS BY ASSETS

	US$bn
Bradesco	24.9
Itaú	19.4
Aplicap	18.0
Bamerindus	17.8
Nacional	13.5
Unibanco	13.3
Econômico	8.7
Real	8.5
Nossa Caixa	8.3
Safra	6.9

Source: Austin Asset

Other reports say negotiations have been delayed by disagreement among the Magalhães Pinto family, controllers of Banco Nacional, some of whose members are said to be reluctant to relinquish control of the bank's retail operations.

"Exactly how the operation will work is a matter of pure speculation for the moment," said Mr Rodrigo Flaes, a banking industry analyst at merchant bank Banco Icatú in Rio de Janeiro. "But it seems certain that a new institution will emerge with Unibanco on top and Nacional in a secondary position."

Other institutions could also benefit from the deal. The Brazilian subsidiaries of Citibank and Bank of Boston, while denying that talks have taken place, are said to be keen to buy any Nacional branches surplus to requirements.

Insurance company Sul America is said to be interested in Nacional's insurance operation.

Any deal is likely to benefit from a provisional decree issued by President Fernando Henrique Cardoso on November 3. The decree – which has the force of law but must be ratified by Congress – creates the "programme for the restructuring and strengthening of the national financial system", or Proer.

The programme is designed to facilitate mergers and acquisitions by providing low-cost financing and is a response to increasing liquidity problems among Brazilian banks.

The decree is being debated this week and next in a joint session of the two houses of congress and could be ratified within three weeks.

Unibanco and Nacional are expected to admit they have been talking within the next few days, and to release details of any deal once Proer receives congressional approval.

Slowing consumer spending hurts US retailers

By Maggie Urry in New York

US retailers complained that slowing consumer spending had hit profits in their third quarter financial periods, which mostly run to October 28. Results from a number of large stores groups yesterday coincided with economic statistics which showed October retail sales had fallen by 0.5 per cent, excluding cars.

Retailers referred to a difficult climate for the industry, and to heavy price cutting which reduced gross profit margins. The dull results hang a question mark over the outlook for the all-important Christmas period.

Although fast expanding groups such as Wal-Mart and Home Depot increased net income in the quarter, Wal-Mart from $588m to $612m and Home Depot from $459m to $546m, other groups generally suffered falls in profits.

Wal-Mart said "our earnings growth was below historic levels", but added that earnings should accelerate when the economy improved.

At Woolworth, net income fell from $37m to $34m with earnings per share down from 28 cents to 26 cents. It said results were "negatively affected by a slowdown in consumer spending, which began in the back-to-school period".

J. C. Penney, the department store and catalogue retailer, said its third-quarter net income fell from $274m to $240m, or from $1.04 to $95 cents a share, fully diluted. It said it was "disappointed" by the quarter and said gross margins fell in "a highly promotional retail environment".

Weak results in the department store chain affected Dayton Hudson's results, and net income fell from $67m to $44m. An increased level of markdowns and higher marketing costs affected margins.

At The Limited, the fashion group which recently floated a stake in Intimate Brands, its Victoria's Secrets lingerie chain, said without the gain from that issue net income fell from $90.5m to $43.8m.

Results from the women's business were "substantially below plan", the group said.

On Monday, Federated Department Stores, owner of Bloomingdales, reported strong third-quarter results, although these were buoyed by last year's acquisition of RH Macy.

Net income was $45.2m in the quarter, but the 1994 figure is not comparable. The group said it was "cautiously optimistic" for the Christmas quarter.

USAir shares dive as UAL halts bid talks

By Maggie Urry in New York and Michael Skapinker in London

The stock price of USAir tumbled yesterday in the wake of Monday night's decision by UAL, parent of United Airlines, to end takeover talks with the troubled carrier.

Shares of USAir, in which British Airways holds a 24.6 per cent stake, fell $3¼ in early trading to $11⅛. They stood at $11½ in early October when the company said it was in talks with both UAL and AMR, the parent of American Airlines, over possible alliances.

UAL's share price advanced $4½ to $187¼ while its bonds also rose as Standard & Poor's, the credit rating agency, took its debt off credit watch where it had been placed when the merger talks were announced.

After UAL's announcement late on Monday, AMR reiterated a statement it made last week that it would not be the first to bid for USAir, although it had said it was ready to counterbid if UAL moved. AMR's shares were unchanged at $69⅝.

A merger between UAL and USAir would have formed the largest US carrier. It had been expected to spark a round of retaliatory consolidation among US airlines.

The prospect of a merger wave had faded, analysts said, although one suggested UAL might now look at a deal with Continental Airlines.

Mr Brian Harris, airline analyst at S. G. Warburg, said he did not expect any other airline to bid for USAir now. He said USAir's future was bright in the near term as improving conditions for the industry translated into rising earnings. However, he still had doubts over USAir in the longer term. It has still to agree cost-cutting deals with its unions.

Mr Gerald Greenwald, chairman and chief executive of UAL, said it had stopped the talks because: "We did not believe a transaction that met our requirements was achievable." Although there would have been significant revenue benefits in a merger, he said, other criteria would not have been met.

UAL would only have done a deal, he said, if it had increased shareholder value substantially and not diluted the majority stake held by its employees. It is thought that UAL's employees were unhappy about a deal and also that it feared its debt would be downgraded if the merger went through.

USAir put a brave face on the end of the talks. Mr Seth Schofield, chairman and chief executive, said: "Our talks with United, while important, were but one of several long-term strategic alternatives being examined." He added that the merger discussions had shown that the "USAir franchise is sound and has significant value". A successor is being sought for Mr Schofield who had put off retirement while the talks were under way.

BA refused to comment on the development. However, Sir Colin Marshall, BA chairman, said last week that if no bidder emerged for USAir, the UK carrier would be happy to continue with the status quo. He said that both BA and USAir benefited from their links.

Acquisition costs behind downturn at Thomson

By Robert Gibbens in Montreal

Thomson, the international publishing and travel group, posted higher nine months' operating profit, but heavier amortisation and financing costs for two 1994 acquisitions reduced final net earnings.

Trading conditions for the travel group were difficult because of overcapacity in the UK air tour market, the company said.

Earnings were US$292m, or 50 cents a share, against $304m, or 52 cents, on revenues of $5.4bn against $4.8bn. Operating profit before amortisation and financing costs was $532m against $501m and cashflow equalled $1.16 a share against $1.14.

Due to the seasonal nature of the travel business, the third quarter provides most of the earnings. This year earnings equalled 48 cents a share against 45 cents.

Thomson, 72 per cent held by the Thomson family of Toronto, has sold its British newspaper holdings, including The Scotsman, for about $1bn, with the proceeds being used to repay debt and expand in specialised publishing.

Thomson said in the first nine months international publishing produced better profits, UK information publishing was little changed, while UK regional newspapers were ahead. Education and library reference results slowed but will improve in the final quarter.

The business information group was well ahead, as was financial and professional publishing.

Thomson's 50 per cent interest in highly profitable Augusta Newsprint in the US offset most of the impact of higher paper costs on its north American newspapers.

Thomson Tour Operations was affected by weak consumer confidence, overcapacity, a warm summer in Britain and price discounting, but Britannia Airways operated near maximum capacity. Winter bookings so far are ahead of last year and higher margins are expected for next summer's business.

AMERICAS NEWS DIGEST

TCI sales ahead 37% in third term

Tele-Communications Inc (TCI), the biggest US cable TV company, increased cash flow in the third quarter by 22 per cent to $533m on sales up 37 per cent at $1.8bn. This was due primarily to increased numbers of cable and satellite TV subscribers and increased subscription rates allowed under the US regulatory system. It was also helped by acquisitions.

Net earnings were $27m against $22m. However, this included a pre-tax gain of $123m on the sale of stock in a subsidiary. The company said regulated revenues accounted for 66 per cent of its cable revenues, compared with 68 per cent the quarter before. As a result of legislation now passing through Congress, regulatory controls on cable rates are expected to be scrapped.

Subscriptions for basic cable rose 3.5 per cent in the quarter, to a total of 12.2m. Primestar, the recently started satellite service, ended the period with 367,000 customers, of whom 265,000 were added in the year to date. Revenues from Primestar were $57m, compared with $808m from basic cable.

Tony Jackson, New York

Fidelity wins Japan licence

Fidelity, the leading mutual fund group in the US, has won a licence to sell investment trusts in Japan. Fidelity follows Morgan Stanley in securing a licence, and a number of other non-US groups have also obtained licences. The trusts are similar to US mutual funds. The group, which manages assets exceeding $380bn, aims to sell investment trusts to individuals and institutional investors. It will be overseen by Fidelity Investments Japan, a subsidiary of Fidelity International.

Fidelity must also apply for permission to launch each trust, and aims to open its first in the near future. The group manages $12bn of Japanese investments worldwide and has had an office in Japan since 1969. *Maggie Urry, New York*

BellSouth to take $1bn charge

BellSouth, the US communications company, will take a pre-tax charge of more than $1bn in the fourth quarter related to previously announced job cuts. The $1.08bn charge will reduce its net income by $665m, or 67 cents a share, which will give it a net loss for the fourth quarter, although not for the year. The company, which said in May that it would eliminate between 9,000 and 11,000 jobs at its telephone unit, on top of 10,000 cuts initiated in 1993, said the new cuts will now total 11,300 jobs. By 1997, the company said, the unit will have reduced its workforce to 58,000.

BellSouth's stock was unchanged at $38.50 in early trading on the New York Stock Exchange. *Reuter, Atlanta*

LeBow urges Nabisco spin-off

Mr Bennett LeBow, chairman of Brooke Group, has written to RJR Nabisco shareholders again calling for an immediate separation of the tobacco and food activities through a spin-off of Nabisco. RJR has repeatedly said that although a demerger is planned in the future, an early spin-off would be hazardous, courting possible litigation. In his latest letter Mr LeBow said RJR's suggestion that plaintiffs in tobacco product liability cases might seek an injunction preventing a spin-off was "a scare tactic" and an "intellectually dishonest one as well".

Mr LeBow also responded to criticism levelled at him and his associate Mr Carl Icahn in a letter to shareholders from Mr Charles Harper, head of RJR. He said Mr Harper had resorted "to mud-slinging and personal attacks" in an "insulting" attempt to sway shareholders. He said accusations made by Mr Harper were "neither correct nor fair".

Maggie Urry, New York

IMC to acquire Vigoro in $1.6bn deal

By Laurie Morse in Chicago

In a move that further consolidates the global fertiliser market, IMC Global has agreed to buy Chicago-based Vigoro for an exchange of stock worth $1.6bn.

The two companies have complementary businesses that will make the combined group a strong global competitor, executives said.

Although fertiliser prices dropped to 20-year lows less than three years ago, demand and prices have strengthened over the past two years, boosted by diminishing world grain supplies and a growing demand for grain and meat.

IMC Global is the US's largest producer of phosphate-based fertiliser, operating phosphate mines in Florida jointly with a unit of Freeport-McMoRan. It is also the US's second-largest producer of potash, another type of fertiliser, and owns potash mines in Saskatchewan, Canada and Carlsbad, New Mexico. About half of IMC's $1.9bn in revenues last year were made from overseas sales.

Vigoro is the biggest and lowest-cost potash producer in the US, and analysts say its low-cost mining techniques could be applied efficiently to IMC's global's potash operations. The new group's biggest rival will be the Potash Corporation of Saskatchewan, which last month bought Occidental Petroleum's fertiliser operations for $286m.

IMC's offer will give Vigoro shareholders 0.8 shares of IMC stock if IMC's stock price remains between $61.87 and $80. The offer will be adjusted if IMC's share price moves beyond that range. IMC's shares were down $⅝ at $72⅝ in early New York trading.

At that price, Vigoro would be valued near $58 per share. Vigoro's stock jumped $9.75 a share to $55 in response to the offer on Monday, losing $⅞ in early trading yesterday.

Analysts said IMC offered a wide premium to Vigoro's share price because of potential cost-savings from the consolidation, and the competitive advantage the combined companies would gain.

Vigoro was created in 1985 when a group of investors, including Chicago-based financier Mr Sam Zell, bought the agricultural division of Kaiser Aluminium. Zell still holds 20 per cent of Vigoro, and has promised to support the buy-out, which still must be approved by shareholders of both companies.

Vigoro, which earned $48m on sales of $730m last year, went public in 1991 at $14 a share.

A change of direction for Sony

Sony's decision to enter the home PC market is a bold bid to retain its leadership in a changing market for consumer electronics.

As shown by the company's half-year results, it has become increasingly difficult to make profits from traditional consumer electronics products. In the six months to September, Sony increased sales of audio and video equipment by less than 1 per cent, while sales of other products, such as its new 32-bit video games machine, semiconductors and CD-ROM drives rose 44 per cent.

The prospects for makers of audio-visual equipment are so bleak that "if Sony does not go into the PC market, there is no future for it", believes Mr Eric Gan, industry analyst at Goldman Sachs in Tokyo.

Markets for audio-visual products are saturated, and price is a decisive factor in consumers' purchasing. As a result, consumer electronics makers have had to concentrate on cutting costs to survive.

For consumer electronics makers such as Sony, survival means diversifying into new products, such as cellular phones and PCs, which have become the fastest growing sectors of the electronics market.

In Japan, for example, the PC market is expected to grow 164 per cent this year to 5.55m units, according to IDC, the high technology consultancy. Within that, IDC believes that demand for home PCs will grow 180 per cent to 1.7m units, and expects PC penetration in Japanese homes to reach 42 per cent by 2000, from less than 11 per cent this year.

The trend to PCs from TVs is likely to grow as computers become more user-friendly and offer an increasing range of services, such as home banking. Sony's decision to plunge into an already fiercely competitive market is recognition that with the emergence of multimedia, PCs have become even more important as a consumer product.

"The move of PCs into the home, combined with the wave of digitisation within the consumer audio-video industry, is leading to the birth of a new consumer electronics market," Mr Nobuyuki Idei, president of Sony, said. Unless Sony enters the PC market, it risks being marginalised in one of the most promising growth markets for the industry.

The trend to PCs from TVs is likely to grow as computers become more user-friendly and offer an increasing range of services

Being a player in the home PC market might bolster Sony's position in the market for next generation recording medium, the digital video disc (DVD).

Sony was forced recently to abandon the DVD format it had developed with Philips of the Netherlands and compromise with a rival camp of electronics makers, in order to avoid creating market confusion by having two competing formats.

If DVD eventually become a new standard for PC program storage, Sony's entry into the consumer PC market could provide it with a ready market for DVDs, one which could be significantly larger than that offered by the audio and video markets where consumers may not be ready yet to trade in their CD players and VCRs for more expensive equipment.

Sony is already a big manufacturer of PC components, such as screens, CD-ROM drives and semiconductors. However, its record in information technology products, such as word processors and workstations, has been mediocre. Sony has not launched a new word processor since 1991.

Sony's new alliance with Intel will enable the Japanese company to enter the PC market quickly. Intel is expected to provide "motherboards", the main circuit board of PCs, for the first generation of Sony PC products.

In future the companies plan to collaborate in the development of new PC and consumer electronics technologies. "We are exploring areas of potential co-operation," Intel said.

Given its strengths in manufacturing many of the parts that go into computers, and its poor experience in selling IT equipment, it makes sense for Sony to tie up with Intel rather than go it alone.

"It's a good match," says Mr Gan. Making PCs is an assembly job these days, and the value-added comes in the semiconductors, he says. Sony makes most of the key components while Intel offers the company what it lacks – the microprocessor. Intel is also the leading maker of motherboards on which the semiconductors are assembled.

The combined strength of the company with the leading consumer brand and the leading maker of microprocessors does not guarantee success in the cut-throat market for PCs.

Well-known brand names can no longer command a significant price premium in the US home computer market, industry analysts said. Sony's success will be determined to a large extent by whether it prices its new PCs aggressively.

However, Sony has surprised the video games industry with its PlayStation, a 32-bit video games machine that has been eating into the shares of Nintendo and Sega in Japan. The company's success with the PlayStation, which is poised to sell 2m units in its first year, shows that "even if they are a latecomer, they can come into markets in a big way", Mr Gan notes.

With its enviable brand recognition, strong distribution network, and the short replacement cycle of PCs, Sony has the potential to surprise the industry again, he believes.

Michiyo Nakamoto and Louise Kehoe

Daimler downbeat at nine months

By Michael Lindemann in Bonn

Daimler-Benz, Germany's biggest industrial conglomerate, which this year announced the worst six-monthe result in its history, said sales for the nine months to September 30 had picked up 3 per cent to DM72.5bn ($51.1bn) but warned that it still expected "a severe net loss" for the whole year.

The rise in sales had been driven by better results at Mercedes-Benz's commercial vehicles division and at Debis, the group's services subsidiary which specialises in financial services and mobile communications.

But sales remained almost stationary at AEG Daimler-Benz Industrie and Dasa, the troublesome engineering and aerospace divisions, even though both units reported rises in new orders of 24 per cent and 5 per cent respectively.

The company gave no indication of the size of the loss for the whole year after Mr Jürgen Schrempp, chief executive, reported a half-year loss of DM1.56bn. The results ware slightly above forecasts and shares rose DM9.2 to DM695.

However, the company said the high value of the D-Mark against the dollar and other European currencies was one of three factors which would continue to drag down results.

It also warned it would write-off the value of some of the transport businesses at AEG which had recently been merged with Asea Brown Boveri, the Swiss-Swedish engineering group, and make unspecified provisions for restructuring costs at Dasa.

Dasa is to make a final decision about its new strategy at the end of this month, having already announced it would shed more than 8,000 jobs and sell at least three production plants. The company said it needed to save a further DM700m a year in order to return to profit in 1997.

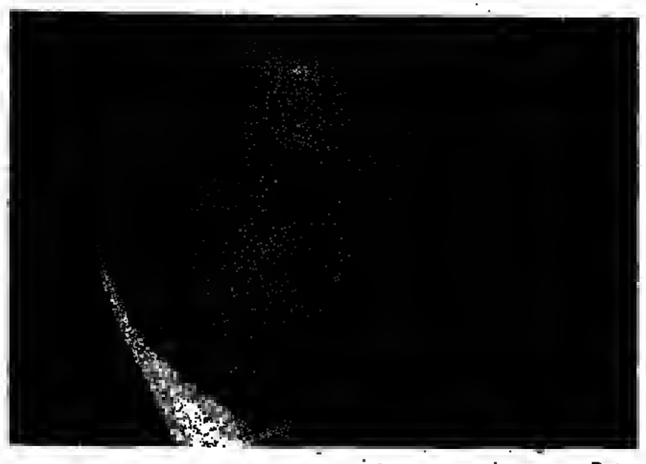
Mercedes-Benz, which represents more than two-thirds of Daimler-Benz's sales, said its commercial vehicles unit expected to sell 330,000 units in 1995 and that sales in the period under review had risen 15 per cent.

Sales of passenger cars fell 4 per cent in the first nins months and the group warned it expected a "slight decline" for the year as a whole.

New registrations of passenger cars had risen slightly in Germany and Japan but had fallen again in the US after a slight rise because of "market and exchange rate factors", the company said.

Passenger car sales had also slowed because clients had been awaiting the introduction of the new E-Class Mercedes, the company said, but the response to the new model had been "generally positive".

Dasa has been particularly badly affected by the dollar's fall against the D-Mark because aircraft sales are all denominated in dollars.



Reuter

Grim outlook: Jürgen Schrempp's group expects "severe net loss"

Sandvik weakens in third quarter

By Christopher Brown-Humes in Stockholm

Profits at Sandvik, the Swedish tools and speciality steels group, rose 75 per cent to SKr4.3bn ($644m) in the first nine months after a 22 per cent increase in sales to SKr22bn.

The pace of growth weakened in the third quarter, following a now familiar pattern for Sweden's big exporters, and the company was hit by the stronger krona.

But it maintained a previous forecast that full-year profits would be "significantly higher" than last year'e SKr3.81bn. Analysts expect full-year profits of about SKr6bn. Mr Clas Ake Hedström, chief executive, said the world economy had entered "a calmer phase".

Third-quarter sales rose 11 per cent, slowing from the 27 per cent rate of increase seen in the first half. The trend remained "very strong" in Europe, where nine-month sales were 29 per cent higher at SKr18.0bn. However, North American sales rose only 3 per cent to SKr4.0bn after being undermined by a slower economy and a weak dollar.

The group, which has the ABB chief executive, Mr Percy Barnevik, as its chairman, said orders also grew more slowly in the third quarter, holding the increase at nine months to 17 per cent. All the group's units contributed to the nine-month sales increase.

The group's Coromant, hard materials, steel and Seco tools divisions showed the best development but European demand weakened for the rock tools division and the steel divisions, where sales rose by a relatively low 19 per cent. "In the steel area, it appears that the favourable business climate has passed its peak," said Mr Hedström.

Sandvik'e saws and tools division had weak third-quarter sales in Germany, the US and Argentina and profits suffered from losses in Argentina.

Rodier set on loosening bonds of French capitalism

Selling Pechiney has its complications. France's aluminium and packaging giant is being privatised against a background of a weak stock market, falling aluminium prices, and scepticism about the attractions of French asset sales – most privatisation offers have fallen sharply below their issue price.

So Mr Jean-Pierre Rodier, the company chairman, set off on his roadshow yesterday armed with industrial arguments and innovations designed to sway the investors which will determine whether he succeeds in taking Pechiney back to private hands after 13 years in the public sector.

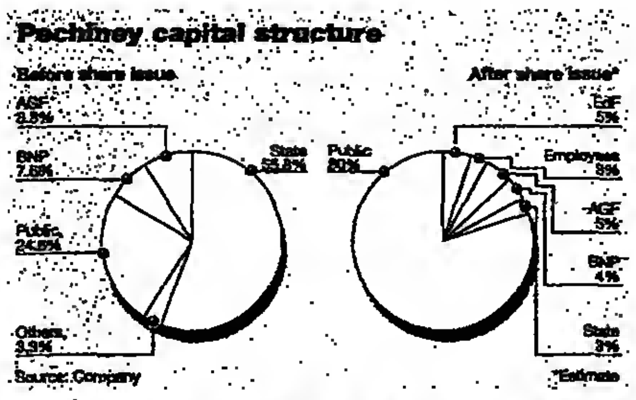
Unlike previous French privatisations, this one will involve no formal shareholders pact to bind a group of long term investors and protect the company from hostile raiders. These shareholder groups, and the system of *noyau dur* cross-shareholdings which underpins French capitalism, have long been a source of grievance with international investors which believe they protect incumbent management and reduce the need to maximise returns.

"I told the government that I did not seek or need a formal pact," says Mr Rodier. "We are going to conduct a rather Anglo-Saxon privatisation." He admits his group will in theory be vulnerable to a hostile bid. "We have no poison pill so our only defence is to manage the company well."

To further sweeten his message, the Pechiney chief says the company will be quoted in New York, improving liquidity, and that he will implement the recommendations of France's Viénot report on corporate governance.

Hence, Pechiney will have three or four independent board members and sub-committees charged with audits, remuneration and important nominations.

The reaction from many in the investment community was cautious welcome. "These are steps in the right direction. But there may be an element of window dressing," says one UK fund manager.



Behind such comments lies the fact that some of Mr Rodier's proposals are evolutionary rather than revolutionary. Although there is no formal pact, friendly shareholders will still retain about 20 per cent of the shares after the operation. According to Mr Rodier, these companies, along with other big investors, have indicated their desire to co-operate with the group in the medium term.

"We are not seeing the end of the *noyau dur* system. That is clear," says a Paris merchant banker. "But Rodier is moving the way tha investment community would like, loosening the bonds a little and accepting the rules of capitalism."

One fundamental rule of capitalism, that the cheaper an investment the more attractive it is, may also help Pechiney's cause. The government has issued a "guideline" price for institutions of between FFr187 and FFr215. After accounting for the exchange terms of existing investment certificates – one of the operation's complexities – the median price gives a discount of about 14 per cent on the FFr255 at which the certificates were suspended on Monday.

"It seems to be a fair price, below what many ware expecting," said Mr Bruno Fine, analyst at Banque du Louvre in Paris.

The accompanying capital increase of FFr3.5bn to FFr4bn ($817m) will complement the group's FFr10bn programme of asset sales achieved and further bolster the group's balance sheet.

"It will bring our debts down to about FFr15m and our gearing ratio from 1.68 at the beginning of ths year to less that 0.7, which is in line with our rivals," ssys ths Pechiney chairman.

Industry analysts point to ths positive impact of debt reduction on earnings, forecasting a steady improvement from the FFr800m to FFr1bn net profit expected this year, after losses last year of FFr3.5bn.

But even with such cards to play, Mr Rodier's game plan faces significant obstacles. "The structure and the message suggest the government knows this could be a tricky issue," says one British metals analyst. He cites the downturn in the aluminium market – which has seen prices fall from $2,200 per tonne at the beginning of the year to about $1,700 – as one area of concern. The fall in issues such as Usinor Sacilor, the steel giant, which is trading at about FFr72 compared with its summer issue price of FFr86, has also soured investor sentiment.

Mr Rodier is undeterred. He convinced the French government to push Pechiney ahead of privatisation rivals such as Renault, the motor group. And he is convinced of the strong prospects for aluminium, the company's competitive position, and the fast growth potential in some packaging markets. There is a lot riding on whether he continues to prove persuasive.

John Ridding

EUROPEAN NEWS DIGEST

Gas and chemicals fuel Repsol rise

Repsol, the Spanish oil group, yesterday reported net profits up 32 per cent from Pta69.4bn to Pta92bn ($752m) for the first nine months. The results were in line with expectations and the shares closed up at Pta15 at Pta3,665. Pre-tax profits increased 31 per cent – from 113.2bn to Pta149.3bn – while cash flow rose from Pta156bn to Pta189bn. Repsol said the increase reflected sharp earnings growth at the group's gas and chemical activities, despite "e fall in the margins on some main plastic products during the last quarter". The chemical operations posted operating profits of Pta57.9bn up from Pta10.7bn. Trading profits at the gas operations increased 26 per cent to Pta42.2bn.

Repsol said operating profits et its refining and marketing division fell from Pta72.3bn to Pta54.2bn, reflecting low international refining margins. But the company said refining margins had improved in the third quarter, noting that profit from refining and marketing rose 86 per cent from the second quarter to Pta24.6bn. Operating profits at its production and exploration unit rose 39.5 per cent to Pta16.4bn. Earnings per share rose from Pta231.41 a year ago to Pta307.16. Earnings per ADR rose from $1.80 to $2.49. *AFX News, Madrid*

Ski lift operator to list

Méribel Alpina, the private French ski lift operator with many British individual shareholders, is scheduled to begin trading on the second market on November 21, the company announced yesterday. Mr André Surelle, chairman, said the quotation – which is likely to initially valne the shares at about FFr600 each – would allow its more than 400 shareholders to sell their shares more easily at a fairer value.

British shareholders claim that the regional government of Savoie, which includes the Méribel area, has been trying to gain control of the company. They supported the quotation in an attempt to improve transparency and prevent Savoie buying shares from the partly state-controlled Compagnie des Alpes. Savoie – which criticised the listing – has confirmed that it wants to take a stake and place s director on the board, but says it only wants 13 per cent and to act as s "sleeping partner".

Mr Surelle estimated the company would make a profit of about FFr9m ($1.84m) during the current year assuming there was no shortage of snow this season. Méribel Alpina will become the second French ski company with s stock market listing, along with Compagnie des Alpes, which was formerly a subsidiary of Caisse des Dépôts, the French state financial institution. *Andrew Jack, Paris*

Celsius profits fall 64%

Celsius, the Swedish defence and information technology group, said profits fell 64 per cent from SKr644m to SKr234m ($35m) in the first nine months. It repeated a forecast that full-year profits would fall from SKr904m to SKr400m in 1994. The group has been hit by problems in CelsiusTech Systems, a defence software specialist now being restructured. Group sales rose from SKr9.68bn to SKr10.96bn and orders from SKr8.5bn to SKr8.9bn. *Christopher Brown-Humes, Stockholm*

Alcatel sales hold steady

Alcatel Alsthom, the French telecommunications and transport equipment group. said nine-month sales rose 1.6 per cent from FFr115bn to FFr116.9bn ($23.9bn). Turnover was down 2.9 per cent on s comparable structure basis. Orders rose from FFr109.7bn to FFr115.bn, an increase of 5.1 per cent. Orders were 3.2 per cent higher on a comparable structure basis. *AFX News, Paris*

But it was not all smiles for the Indonesian telecoms group

Modest welcome for PT Telkom shares on trading debut

By Manuela Saragosa in Jakarta

Shares in PT Telkom made a modest dabut in their first day of trading in New York, London and Indonesia yesterday, vindicating the government's decision to cut back drastically the international tranche of the offer and price the shares below their indicative pricing range.

The success of the Indonesian telecommunications group's offer is being billed as crucial to the development of the country's stock market because it includes many first-time investors in the equity market.

Telkom shares in Jakarta closed at Rp2,100, up slightly from their offer price of Rp2,050, after hitting a high of Rp2,200 with more than 110m shares exchanging hands.

In New York and Londoo, American Depositary Shares (ADS) – equivalent to 20 common shares each – marked their first trade at $19. That compares with the IPO price of $18 per ADS.

The market reaction to Telkom's listing, which was preceded in Jakarta by s prayer recital, is being watched closely because international demand for the shares was weak.

A day before the listing, the government more than halved Telkom's international tranche to 30m ADSs and cut the ADS price to below the indicative pricing range of between $19.50 and $24.50.

As a result, only 19 per cent of Telkom's enlarged share capital is being listed, compared with the initial aim of selling 27.5 per cent of its share capital. "It was a rational move" a Singapore-based analyst said. "This way they are hoping to avoid a sloppy secondary market."

The size of the domestic tranche, however, remains unchanged, with about 1.17bn shares being offered on the Jakarta and Surabaya Stock Exchanges. This has left the government in the awkward position of having a larger domestic than an international tranche; the reverse of what they had intended and in sharp contrast to previous privatisations.

The final decision on scaling down the offer's size and price came from President Suharto.

Telkom received 337,000 applications from first-time buyers for the domestic tranche after Indonesia embarked on its first nationwide marketing campaign, aimed at involving the small retail investor in its largest privatisation to date.

The campaign is part of a wider sttempt to broaden the domestic investor base in Indonesia, where trading is dominated by foreigners.

As a result, the Telkom issue is likely to set a precedent for future participation in equities by the Indonesian public. Analysts say part of the reason the international tranche was scaled back was to try to avoid a situation similar to Indonesia's previous privatisation.

Shares in Tambang Timah, the integrated tin mining company which was listed in Indonesia and London in mid-October, fell 17 per cent in their first five days of trading.

Analysts said the stock, which was priced at the top eod of its indicativa pricing range, was too expensive.

Unlike Tambang Timah, however, most of the shares in Telkom's domestic trancbe are being locked up for either one or two years with domestic institutional investors.

However, the sheer size of the local tranche, with about $400m worth of loose stock, is still causing concern, particularly because local investors' selling started the downward spiral of Tambang Timah's shares.

Thai telecom groups post solid gains in third term

By Ted Bardacke in Bangkok

Thai telecommunications companies reported healthy third-quarter profits yesterday, quashing speculation that a fall in new subscribers and lower line utilisation was hurting the industry.

Advanced Info Service, a mobile phone network operator, supplier of handsets and member of the Shinawatra group of companies, said third-quarter profits increased 116 per cent over the same period last year to Bt867m ($34.4m). Nine-month profit rose 77 per cent to Bt2.1bn.

Full financial details were not released but analysts said the number of new cellular-pbone subscribers was still strong, up 71 per cent from a year earlier.

This helped to offset an increase from 15 per cent to 20 per cent in the rate of revenue sharing Advanced must pay to the state-owned Telephone Organisation of Thailand (TOT). Analysts said Advanced should easily meet their forecasts of Bt2.5bn for the full year.

United Communlcation Industry, another telecommunications distributor and parent company of Singaporé-listed mobile network operator Total Access Communication, reported third-quarter net profit of Bt702m, up 22 per cent from a year earlier. Nine-month profit rose 33 per cent to Bt1.91bn.

Analysts said the strong presence of the Motorola brand handsets, of which Ucom is the sole distributor in Thailand, was keeping profit growth strong and helping Total Access to maintain its share of the cellular market above 35 per cent.

Profits for the fourth quarter at Total Access will be helped by a Bt173m saving in revenue sharing with the TOT as the current concession agreement is converted into a joint venture.

Jasmine International, a big shareholder of fixed line operator Thai Telephone and Telecommunications (TT&T), reported third-quarter net profit of Bt703m, up 241 per cent from a year earlier. Nine-month net profit was Bt1.14bn, up 181 per cent.

Jasmine's surge was partly attributable to the Bt660m private sale of part of its subsidiary, Jasmine International Overseas. Another strength was TT&T's third-quarter net profit of Bt252m, up 93 per cent over the same period last year. Nine-month net profit at TT&T was Bt706m, up 1,096 per cent. TT&T has a concession to install and operate 1.5m telephone lines outside the Bangkok metropolitan area. The company said its installation and snbscription rate was ahead of forecasts, but revenue per line was lower than expected.

Normandy to merge gold-mining offshoots

By Nikki Tait in Sydney

Normandy, the Australian mining group headed by Mr Robert Champion de Crespigny, is to consolidate its complax stable of listed gold-mining units into one company.

The merged entity would have an estimated market capitalisation of about A$3bn (US$2.2bn) and rank as the eighth largest gold producer worldwide, with production of more than 1.5m oz.

Under the four-way merger, investors in Poseidon Gold, Gold Mines of Kalgoorlie and North Flinders Mines will exchange their holdings for shares in Normandy.

Normandy currently holds a 51 per cent interest in PosGold, which in turn owns 31 per cent of GMK and 49 per cent of North Flinders.

Normandy did not outline the share swap terms yesterday, saying that a valuation of the assets of each company would first be conducted by Grant Samuel. The advisers would then recommend terms to each company. It said msrger terms should be advlsed within four weeks.

Mr de Crespigny said the deal was being driven partly by investor disquiet over the group's complex structure: "The investment community is asking for simple structures," he said. But the main reason was to give Normandy more financial weight on the international mining scene, he added, and provide cost-savings of at least A$10m a year.

If the three share swaps go ahead, the merged company would have about 86 per cent of its assets in the gold sector, and about 90 per cent in Australia. Mr de Crespigny said the aim was to lift the overseas portion to about 30 per cent over the next five years, although Australia would remain "the engine room".

On a pro forma basis for 1994/95, after-tax profits of the merged companies would have been A$120m. The deal would significantly dilnte the holdings of Minorco, the Luxembourg-qnoted subsidiary of Anglo American Corporation of South Africa, and Mr de Crespigny in the Normandy group. According to estimates by brokers Ord Minnett, Minorco's 19 per cent interest in Normandy would be reduced to about 8.5 per cent, while Mr de Crespigny's interest would fall from 10.9 per cent to 3.7 per cent.

Mr Robert Champion de Crespigny: 'simple structures' needed

Shares in Normandy were steady at A$1.75. However, PosGold dipped 8 cents to A$2.53, while GMK added 3 cents to A$1.21 and North Flinders climbed 1 cent to A$7.76.

For a deal to go ahead, the Normandy-PosGold scheme must be approved by shareholders, but it is not conditional on the GMK or NFM schemes. This is to avoid the possibility of Normandy being diluted to a non-controlling position in PosGold. Mount Leyshon, another listed company in which PosGold holds a 75 per cent interest, is not included in the scheme.

Separately, Normandy is talking to the French government-owned Bureau de Recherches Géologiques et Minières about simplifying the structure of a jointly-owned mining company, LaSource group, in which it acquired a 49 per cent interest in June.

PosGold is also involved in the talks because it owns a 38 per cent interest in Mine Or, LaSource's gold mining arm.

The objective, according to Normandy, is to negotiate for the merged group to have a 60 per cent interest in LaSource's non-Peruvian assets.

Japanese petrochemical groups lifted by south-east Asia demand

By William Dawkins in Tokyo

Japan's sevan leading petrochemicsls suppliers reported strong export sales to sonth-east Asia in the six months to September, but warned of a slowdown in Asian economic growth.

South-east Asian demand and continued cost-cutting at home, where demand continues to be weak, were main features in the improved unconsolidsted interim results published by the top seven yesterday.

However, pressure on the groups to continue to trim surplus domestic capacity through mergers and alliances remained strong, according to industry analysts.

Export sales hit record highs in all cases, with Mitsui Petrochemical leading the pack with 21.7 per cent of its sales overseas.

Mitsubishi Chemical, the largest producer, reported a Y12.3bn ($120.9m) recurring profit – before tax and extraordinary items – on sales of Y538.7bn, while Sumitomo Chemical posted s Y7.7bn profit on turnover of Y289.2bn.

Neither published comparable figures because Sumitomo has changed its accounting period and Mitsubishi was formed through a merger of Mitsubishi Petrochemical and Mitsubishi Kasei in October last year.

The new Mitsubishi Chemical expects to save Y10bn a year on staff rednctions and other cost cuts.

Strong profit improvements were seen at Asahi Chemical, up 71.2 per cent at Y16.5bn, and at Mitsui Petrochemical, with a 2.4-fold increase in profits to Y8.5bn. The remaining three, Mitsui Toatsu, another member of the Mitsui group, Ube Industries and Tosoh, all turned round from losses in the first six months of last year, helped by exports.

According to industry analysts, Mitsui Toatsu and Mitsui Petrochemical are considering what would be the second important Japanese chemicals merger in just over a year.

All but Tosoh expect sales and profits to rise for the year to next March, despite signs of flagging growth in international demand and weak prices. At home, the leading seven groups reported a rise in demand for synthetic resins, but weak prices.

Overall, the sector reported small interim sales increases, ranging from 1.6 per cent at Ube Industries to 14.7 per cent at Mitsui Chemical.

Lower debt charges behind Westpac rise

By Nikki Tait

Lower bad debt charges helped Westpsc, the Australian banking group, to lift profits after tax and sbnormal items by 34 per cent to A$947m (US$699.6m) in the year to end-September.

The figure, a record for the bank, compares with A$705m in the previous year, and represented a substantial recovery from the A$1.56bn loss recorded in 1992.

Westpac, which was the most seriously affected of the big Australian banks in the recent recesslon, also announced it was returning to full franking of dividends and would make a final payout of 15 cents a share, up from 10 cents, making 28 cents for the year, against 18 cents previously.

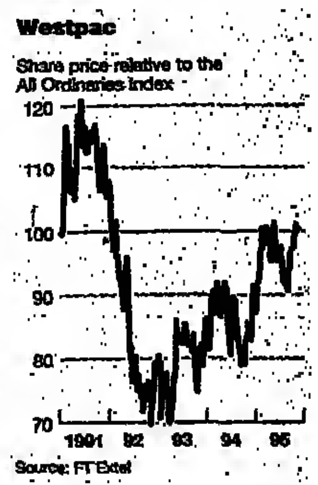
Although some analysts had been forecasting even higher results – close to A$1bn – the figures still left the shares 6 cents higher at A$5.53.

Net interest income in the year increased 8 per cent to A$2.98bn, whila non-interest income fell 10 per cent to A$1.39bn. The provision for bad and doubtful debt fell from A$695m to A$330m. Total impaired assets stood at A$2.2bn by year-end, compared with A$3.78bn a year ago, and A$6.6bn when the bank's troubles were at their peak.

Non-interest expenses were largely static at A$2.65bn after A$2.63bn last time.

The bank, which is restructuring its branches and shed about 840 staff in the year, said short-term costs associated with its "best bank" programme had adversely affected the 1995 year. Its operating income to expenses ratio stood at 60.7 per cent at end-September, compared with 61 per cent a year earlier.

Westpac



Source: FT Extel

The after-tax results were scored after an abnormal charge of A$68m - made up of a further A$212m restructuring charge, offset by favourable tax adjustments.

Mr Bob Joss, the US banker drafted in to manage Westpac when its bad debt problems were at their height, conceded yesterday that the rate of decline in bad debt provisions would now decelerate.

However, he said the bank could still look for growth from revenue expansion and higher loan volumes, as well as efficiency gains. The current year, he added, was "going to plan".

Mr Joss said the bank was happy with its capital ratios – the net capital ratio at end-September was 13.9 per ceot.

He denied having a "takeover strategy", but acknowledged that the bank, whose A$689m offer for Perth-based Challenge Bank is likely to be completed shortly, now had the financial flexibility to pursue deals.

Mixed performance at Daihatsu

By Michiyo Nakamoto in Tokyo

Three of Japan's smaller carmakers yesterday reported non-consolidated results which reflected mixed performances in a lacklustre market.

Daihatsu, which specialises in small cars and commercial vehicles, posted a 9 per cent gain in recurring profits – before tax and extraordinary items – from Y2.1bn a year earlier to Y2.3bn, despite a drop in sales from Y345bn to Y315bn.

Daihatsu blamed the lower sales largely on difficulties in overseas markets, where Japanese carmakers have been hit by the strong yen.

It said it was able to raise recurring profits mainly as a result of stringent cost-cutting.

The company recently agreed to an increase in the stake owned by Toyota to 33.4 per cent from 16.8 per cent.

Isuzu, predominantly a truck manufacturer, suffered from a fall in domestic demand for large trucks.

The company, 37 per cent owned by General Motors, the US carmaker, posted sales of Y598.7bn, against Y506.4bn a year earlier. However, the figures are not comparabls because Isuzu changed its year-end this year and the previous term covered just five months between November 1994 and the end of March 1995.

Recurring profits for the six months to the end of September totalled Y14.5bn, against a five-mouth figure of Y13.1bn previously.

The company passed its mid-term dividend.

Suzuki, Japan's largest maker of mini-cars with an engine capacity of under 660cc, saw profits rise 3 per cent to Y10.3bn, helped by the success of its cars in the home and overseas markets.

Motorcycle sales declined, whila cars sales were supported by the success of its Wagon R recreational vehicle.

Overall sales increased 7 per cent to Y555.4bn from Y517.9bn a year earlier.

Mayne Nickless warns of decline in profits

By Nikki Tait

Mayne Nickless, the Australian security, transportation and healthcare group, yesterday warned that it expected to see a downturn in after-tax profits in the first half of 1995-96.

It blamed the decline on losses at its logistics business in Benelux and at its UK-based Security Express/Armaguard division, coupled with a higher company tax rate.

Mayne said its recent divestment programme was approaching completion.

"Our restructuring... is not yet complete and further details will be announced in the coming weeks," Mr Ian Webber, chairman, told the annual meeting in Melbourne.

In recent months, Mayne has sold several security-related businesses in Europe and the US, with gross sale proceeds of about A$120m (US$88.6m).

The group forecast that the flotation of Optus, the Australian telecommunications group formed to compete with the government-owned Telstra and in which Mayne holds a minority stake, would proceed in the second quarter of 1996.

Mr Webber said Mayne was convinced that "future returns on the Optus shareholding will more than justify our investment", and that it would therefore be maintaining its 25 per cent interest at the time of the float.

Mayne added that it hoped to be able to announced a new chief executive "very shortly", to replsce Mr Bill Bytheway who left the company in June after boardroom differences over the group's direction.

Brierley Investments upbeat on earnings

Brierley Investments was performing strongly, helped by improving earnings from its UK subsidiary Mount Charlotte, the owner of Thistle Inns and other UK hotels, Mr Bob Matthew, chairman, told the annual meeting, writes Terry Hall in Wellington.

Hs said Brierley's first-half earnings would show a significant improvement on the same period of last year. He added that Mount Charlotte was expected to show a 50 per cent increase in earnings to about £35m ($54.4m) in the year to December.

Mr Paul Collins, chief executive, said Brierley Investments expected substantial rises in earnings from Mount Charlotte over the next two years. He added that in the first quarter, Brierley had booked an NZ$80m (US$52m) profit from the partial sale of shares in Sky City, the Auckland casino which is under construction.

Brierley, he said, also expected s strong contribution from its 35 per cent stake in Air New Zealand, which will continne to focus on the main Asian markets. Sealord, the Maori-Brierley joint venture fishing company, and industrial group Skellerup were also expected to perform well.

The decision to sell most of its loss-making US investments would also help profitability.

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COMPANY NEWS: UK

Long-term contracts will expand most profitable side by 50%

BOC 'best in three decades'

By Jenny Luesby

Mr Pat Dyer, chief executive of BOC Group, yesterday described the annual results of the industrial gases company as the best he had seen in three decades.

Pre-tax profits expanded to £402.2m in the year to September 30. This compared with £354.7m last time but was before £101.6m of exceptional charges.

Sales were 8 per cent ahead at £3.75bn ($3.48bn). The shares rose 12p to 876p.

Mr Dyer said the group had also won long-term gas supply contracts that would expand the most profitable side of its gas business by 50 per cent. The contracts – for gas produced on manufacturers' own sites – would commit BOC customers to a minimum supply for 15 years.

Building was underway for two-thirds of these new contracts, he said.

The group's star performer was the vacuums business, which supplies pumps to the electronics industry. Profits in the vacuums and distribution division advanced 38 per cent to £70.5m, despite difficulties on the distribution side.

The group had already achieved a step-change in its margins, following a restructuring programme last year.

Within the gases business, which accounts for 70 per cent of BOC's sales, margins had been lifted from 13.4 to 14.2 per cent. Operating profits advanced 13 per cent to £374.2m.

The main focus for restructuring had been the healthcare business, following a loss of sales and falling prices as Forane, the group's best-selling anaesthetic gas, came off patent. The business had now "bottomed out", said Mr Dyer, with operating profits up by 8 per cent to £59.8m.

Net interest costs rose to £94.2m (£80.7m) as net debt grew by £103m to £1.07bn, gearing of 56.2 (55.7) per cent.

Earnings per share were 51.97p, against 23.82p.

As known the dividend for the year was 24.8p while 27p is proposed for the current year.

Geest warns of too many bananas

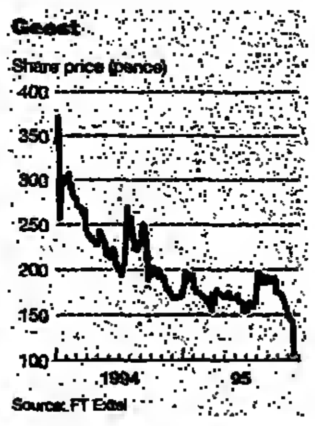
By David Blackwell

Geest, the banana group that has been plagued by disease and hurricanes, yesterday warned that oversupply in the final quarter would hit profits this year.

The warning – the third in the last couple of years – knocked 32p off the shares, which closed at 107p. The City cut forecasts for profits from about £14m to £9m ($14m) this year – excluding the exceptional charges of £7m announced yesterday and the £5m first half charge.

Mr David Sugden, chief executive, described the oversupply in northern Europe as having "a disastrous effect on the selling price of bananas". UK supermarkets had to some extent taken advantage of the situation in the banana price war of the past few weeks, which has seen prices halved.

Geest blamed the oversupply on the vagaries of the EC banana regime, which favours bananas from countries in the African, Caribbean and Pacific



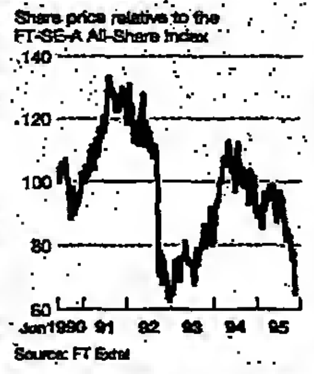
(ACP) Group and sets quotas for so-called dollar bananas from Latin America.

Its remarks echo comments earlier this month by Chiquita, the US banana group, which said its profits had been affected by "inappropriate administration of the EU quota and licensing regime". However, Fyffes, Geest's major competitor in the UK is forecast to make record profits this year of I£43m.

LEX COMMENT

Arjo Wiggins

Yesterday's profits warning from paper group Arjo Wiggins Appleton suggests another cyclical industry has hit the buffers. In common with steel, chemicals and cement, paper prices are coming under pressure and volumes are suffering as customers destock in response to slower economic growth. Capacity utilisation has dropped to an alarmingly low 50 per cent at some of Arjo's mills. Two months ago the management confidently expected destocking to have ended by December. Now it is hoping that conditions will improve next spring. Unlike integrated producers, Arjo's margins are also being squeezed because prices of pulp, the main raw material, have held up better than those of finished paper.



A prolonged downturn at this point would catch the group ill-prepared. Yesterday's £100m restructuring of its European paper operations is a belated recognition that the division's 8 per cent return on capital in 1994 – a relatively good year – is inadequate. The high profitability of Appleton papers in the US came to the rescue in the last recession. But the outlook there is more difficult now that its main market for carbonless paper is in decline. Arjo has expanded in less cyclical paper merchanting with add-on acquisitions. But a significant strategic move has eluded the group – it was outbid for coated paper producer SD Warren last year.

Even after yesterday's 6 per cent fall, the shares yield only 15 per cent more than the market average. Given the uncertainties, they look unappealing.

CDL Hotels plans float for offshoot

CDL Hotels Group, part of the Singapore-based Hong Leong group headed by Mr Kwek Leng Beng, one of the world's wealthiest men, is to seek a listing for its European and US hotels on the London Stock Exchange in the spring, writes Scheherazade Daneshkhu.

The group, which is listed in Hong Kong, Amsterdam and Singapore, last month completed the £219m ($346m) purchase of Copthorne Hotels from Aer Lingus. The acquisition of the 16-hotel chain increased the group's portfolio to 55.

The book value of the 23 European and US hotels amounts to £600m, according to the company, but CDL is unlikely to float more than 40 per cent.

The name of the new subsidiary has yet to be settled but is likely to be Millennium and Copthorne.

The group recently branded its hotels under the name Millennium Hotels and Resorts, and said yesterday that Millennium Copthorne would be the sub-brand for its standard four-star hotels. It also operates 20 hotels in New Zealand under the Quality Hotels brand.

Analysts believe the London market would welcome new sizeable hotel entrants to widen investor choice which, among the largest groups, is limited to three companies: Forte, Ladbroke and Stakis.

Informal offer for Northumbrian Water

Northumbrian Water and Lyonnaise des Eaux remained tight-lipped last night after the chairmen of the two companies held a two-hour meeting in which the French group made an informal offer for the north-eastern water utility.

Lyonnaise is thought to have tabled an offer valuing Northumbrian at between £780m and £793m ($1.25bn) representing an offer of between £11.30 and £11.50 a share. The UK group's shares rose 10p to £11.25 yesterday.

Sir Frederick Holliday, Northumbrian's chairman, will return to the company's headquarters at Newcastle-on-Tyne later this week for a board meeting at which the offer will be discussed.

Christopher Price

£15m tag for L Gardner

L Gardner Group, a diesel engine and agricultural machinery group, is coming to the market later this month in a move likely to value the company at about £15m ($24m). The group hopes to raise £5m. Some £2.5m of this will be paid to Texas Group, which will see its 95 per cent holding reduced to 60 per cent. Gardner, which is debt-free, reported pre-tax profits 63 per cent higher at £1.8m for the year to August 31. Turnover rose 19 per cent to £16.5m.

Christopher Price

Roxspur capital reorganisation

Roxspur, the specialist engineering group which had its shares suspended last month, yesterday launched a 4-for-9 rights issue at 3p to raise £2.18m ($3.44m) and announced pre-tax losses of £2.9m in the 13 months to June 30. The losses announced included a £1.2m loss from Wills, bought for £25.1m in April.

The group also announced a capital reorganisation in which each existing share would be sub-divided into one new share of 1p and one deferred share of 4p. Roxspur's banks have agreed to extend the its borrowing facilities by £806,000.

Motoko Rich

FT-SE Actuaries

Following the announcement that North West Water's offer for Norweb has been declared unconditional, the FT-SE Actuaries UK Indices Committee has approved that Norweb be replaced by Carpetright in the FT-SE Mid 250. Carpetright will also become a constituent of the FT-SE Actuaries 350 Lower Yield Index.

Fenner rises 61% after restructure

By Tim Burt

Fenner, the industrial products group, yesterday announced a 61 per cent profits increase following improved demand for its polymers and power transmission equipment.

The company, which has undergone a hefty rationalisation in the past three years, saw pre-tax profits jump from £8.2m to £13.1m ($21m) on increased sales of £225.3m (£200.8m) in the year to August 31.

The shares, however, fell 8p to 147p after the company warned that confidence was at a low ebb in many of its industrial markets and some customers were reporting uneven trading.

"Our own trading is very good at present", said Mr Mark Abrahams, chief executive, "but we're cautious because there is a lot of nervousness in the market place, which could lead to flatter volumes".

Strong organic growth in Britain and the US helped lift operating profits from £8.83m to £14.5m.

Acquisitions, including Efson, the North Carolina plastic components manufacturer, for $16.5m, made little or no contribution to the latest figures. Mr Abrahams said they would underpin future growth in the polymers division.

COMPANY NEWS: UK

Weather-related losses hit General Accident

By Ralph Atkins, Insurance Correspondent

An upturn in UK subsidence claims, together with Caribbean hurricanes and severe weather in North America, swept nearly £40m ($63m) off nine-month pre-tax profits at General Accident.

The bigger-than-expected losses – which restricted pre-tax profits to £346.6m in the nine months to September 30 against £323.7m last time – led to a steep fall in the group's shares early yesterday.

They recovered later, however, as GA argued that many of the claims were one-offs and that it remained well placed to face the expected deterioration in trading conditions. After falling 18p at one point, GA shares ended down 7p at 629p.

"Profits are going to go down, but they are not going to go down faster because of these results," said Mr Brian Shea, insurance analyst at Salomon Brothers.

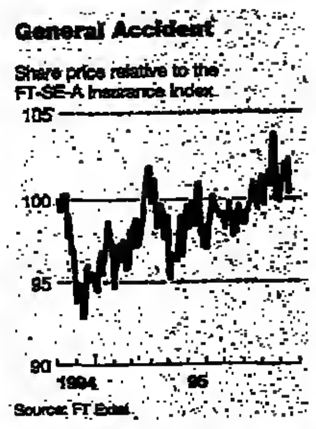
UK subsidence claims were £12m higher in the third quarter than a year earlier, partly because of media warnings, GA said. Damage caused by Hurricane Marilyn to the Virgin Islands cost £10m, while exceptional severe weather losses in Canada and the US accounted for a further £16m.

Mr Nelson Robertson, chief executive, said: "We are not trying to plead too much. We're just saying that we can identify the reasons."

The costs were offset by reduced underwriting losses in the US and Canada, as well as a 10 per cent increase in investment income to £384.2m.

Highlighting tougher conditions at home, however, was a £48.4m fall in UK underwriting profits to £109.7m. Underwriting profits on personal home insurance fell from £61.8m to £38.3m, while commercial motor reported a deficit as one coach accident claimed £4.5m.

Long term business profits rose from £37m to £44.9m, with GA continuing to buck the trend in UK new business production.



Sedgwick slips but still above expectations

Sedgwick, the insurance broker, yesterday reported a dip in pre-tax profits as the weak dollar hit revenues amid continuing tough trading conditions, writes Ralph Atkins.

However pre-tax profits of £76.5m ($120m) in the nine months to September 30, against £78.7m, were higher than expected and Sedgwick's shares ended up 3p at 112p. The group intends to maintain the final dividend. To recover advance corporation tax previously written off, however, the final will be paid out of foreign profits as a foreign income dividend.

To compensate shareholders who would benefit from the tax credit which attaches to a conventional dividend, the final dividend will be "enhanced" by 25 per cent to 4.375p against 3.5p for 1994.

The immediate effect of the move, which is expected to apply also to the 1996 interim, was a £6.8m reduction in the tax charge in the first nine months. As a result, earnings per share were 1.2p higher than they would have been.

Sedgwick continues to be hit by softening rates in the London insurance market from which it sees no sign of early relief. Brokerage and fees at Sedgwick Payne, which includes the London market result, fell 5 per cent in constant currency terms to £122.9m. However, turnover in European and US retail businesses continued to grow. Brokerage and fees were up 7 per cent in Europe. US retail business reported a 1 per cent increase.

Merger puts new Liffe into London futures

Richard Lapper and Alison Maitland explain why derivatives exchanges are combining

The merger of Liffe, the London financial futures exchange, with the smaller London Commodity Exchange, marks a further stage in the rationalisation of the international exchange-traded derivatives business, and should strengthen London as a centre for these markets.

Amid increasing international competition Liffe has already this year forged alliances with markets in two time zones – the Chicago Board of Trade (CBoT) and the Tokyo International Financial Futures Exchange (Tiffe) – while the LCE had this year announced plans to form a joint venture with the CBoT.

Yesterday's merger came hard on the heels of the announcement on Monday of a link-up between Liffe and Tiffe.

Liffe's deals follow a plethora of other alliances and link-ups over the last 18 months connecting exchanges in Europe, Asia and the US. LCE's main rival, the New York Coffee, Sugar and Cocoa Exchange, received a merger offer in August from the New York Mercantile Exchange.

The same factors are driving all these deals. Exchanges are being dominated by the interests of larger banks and securities houses, whose interests span both financial and commodities markets. They are conscious of the cost of trading on separate exchanges and anxious to streamline their operations. At the same time the exchanges are increasingly concerned that rapid growth of the financial futures business is beginning to slow. Strategists argue that the domestic markets for so-called plain vanilla financial contracts – like 10-year bond futures – is showing signs of saturation, and markets must start to look for opportunities by selling existing products more widely.

Liffe's strategy reflects the influence of all these considerations.

Its alliance with the LCE should allow the two exchanges, in conjunction with the CBoT, to take advantage of a sizeable new potential market in Europe for agricultural derivatives products.

As the European Union faces up to the possible deregulation of its agricultural support regime, an increasing number of farmers are expected to turn to derivatives to manage their risks stemming from a bad harvest or sudden movements in prices.

Liffe and the LCE already enjoy a high degree of integration, sharing common clearing systems and arrangements with the the London Clearing House.

The merger received a mixed reaction from leading dealers. Mr Robert MacArthur, vice-president of the Tropical Trader Group at Merrill Lynch, which has seats on both exchanges, said it made sense from a financial, administrative and regulatory point of view.

"The LCE has an enormous amount of room to expand," he said.

"Securing a position inside Liffe will give it the resources, both financially and in terms of personnel, to develop. The potential for Europe, including east Europe and Russia, to start making use of Europe-based grain markets is enormous."

However, Mr Roy Leighton, chairman of Credit Lyonnais Rouse, the derivatives arm of the Credit Lyonnais group, said he was disappointed the LCE was not merging with the International Petroleum Exchange.

"Our problem is that one of the strengths of the LCE and IPE is that they're close to and responsive to their membership. Liffe is, in my view, removed from its membership."

He envisaged the LCE "probably becoming very much a 42nd cousin within the Liffe organisation." In addition, Liffe was an expensive organisation with "large overheads".

Michael Jenkins (left) chairman of the London Commodity Exchange with Michael Stiller, deputy chairman, Liffe, against a backdrop of Liffe traders

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bank of Ireland ♣	6 mths to Sept 30 ★	-	(-)	191.8	(167.3)	25.7	(22)	5	Jan 9	4.25	-	12.5
BMG Charles Sidney	Yr to Aug 31	188.4	(72.2)	3.85♦	(2.87)	7.31†	(8.3)	2.4	Jan 22	2.3	3.7	9.5
BOC	Yr to Sept 30	3,752	(3,483)	402	(253♦)	51.97	(23.82)	12.4♠	-	11.8	24.8	23.2
Borthwicks	6 mths to Sept 30	17.3	(14.9)	1.28	(0.924)	1.75	(1.33)	0.5	Jan 26	0.5	-	1.3
Chamberlin & Hill	6 mths to Sept 30	13.5	(11.5)	0.923	(0.84)	8.52	(5.94)	2.5	Dec 18	2.25	-	7
Cleveland Trust	6 mths to Sept 30	1.75	(0.911)	0.606	(0.382)	3.1†	(2.5)	2.45	Jan 25	2.4	-	5.7
Dickie (James)	Yr to Aug 31	30.8	(21.7)	2.04	(1.35)	20	(15.3)	3.5	Dec 19	2.5	5.5	3.5
Fenner	Yr to Aug 31	225.3	(200.8)	13.1	(8.15♦)	10.21†	(4.24)	3✠	Jan 15	0.95	4.5	1.5
General Accident	9 mths to Sept 30 *	4,433□	(3,852□)	346.6	(323.7)	52.3	(52.4)	-	-	-	-	29
Great Portland	6 mths to Sept 30	46.7	(44.8)	23.8	(21.4)	5.6	(5)	2.9	Jan 4	2.9	-	6.75
Jarvis Porter	6 mths to Aug 31	45	(33.4)	7.27	(4.68)	10.2†	(8.8)	2.15	Jan 12	1.9	-	6
Marshalls	6 mths to Sept 30	135.7	(124.8)	16.4	(15.9)	7.73	(7.29)	1.5	April 6	1.5	-	5
Raine	Yr to June 30	510.1	(456.5)	101.8L♦	(13.1♦)	49.59L	(4.88)	nil	-	2	0.5	3
Rotaprint	13 mths to June 30	11.3	(5.22)	2.91L♦	(0.12)	3.9L	(0.4)	nil	-	nil	nil	nil
Sedgwick	9 mths to Sept 30	692	(694.2)	76.5	(78.7)	10.2	(9.1)	-	-	-	-‡	6.5
Wilshaw	6 mths to Sept 30	26.6	(22.6)	2.69	(2.24)	1.99†	(1.62)	0.3	Jan 31	0.25	-	0.75
Wyndham Press	6 mths to Sept 30	16.8	(11.8)	1.97	(1.51)	5.5†	(4.7)	1.6	Dec 15	1.4	-	3.75
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Asset Manage't Inv.	10 mths to Sept 30	102.6	(-)	0.044	(-)	1.4	(-)	0.593	Jan 26	-	0.593	-
F&C Emerging	Yr to Sept 30	105.1	(137.8)	1.87L	(0.868L)	1.02L	(0.87L)	nil	nil	nil	nil	nil
Finsbury	6 mths to Sept 30	197.1	(174.4)	0.626	(0.428)	2.6	(2)	1.6	Dec 14	1.2	-	3.2
Kleinwort European	Yr to Sept 30 ★	97.9	(92.2)	11.3	(4.52)	2.26	(0.9)	2.25	Feb 12	0.6	2.25	0.6
Scottish Value	Yr to Sept 30	115.62	(109.15)	1.07	(1.01)	2.14	(2.05)	1	Jan 10	1	2	2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. *Comparatives restated. ♦After exceptional charge. ♥After exceptional credit. †On increased capital. ♠As previously announced; interim of 13.5p for current year payable February 1 with second interim of 13.5p proposed for payment in August. ✠Foreign income dividend. □Premium income. ‡FID final of 4.375p indicated.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.07	6.97	8.37
0100	12.97	8.89	8.89
0130	12.97	8.89	8.89
0200	12.89	8.89	8.89
0230	8.95	8.89	8.89
0300	9.04	8.89	8.89
0330	[illegible]	[illegible]	[illegible]
0400	[illegible]	[illegible]	[illegible]
0430	[illegible]	[illegible]	[illegible]
0500	[illegible]	[illegible]	[illegible]
0530	[illegible]	[illegible]	[illegible]
0600	[illegible]	[illegible]	[illegible]
0630	[illegible]	[illegible]	[illegible]
0700	[illegible]	[illegible]	[illegible]
0730	[illegible]	[illegible]	[illegible]
0800	[illegible]	[illegible]	[illegible]
0830	[illegible]	[illegible]	[illegible]
0900	[illegible]	[illegible]	[illegible]
0930	[illegible]	[illegible]	[illegible]
1000	[illegible]	[illegible]	[illegible]
1030	[illegible]	[illegible]	[illegible]
1100	[illegible]	[illegible]	[illegible]
1130	[illegible]	[illegible]	[illegible]
1200	[illegible]	[illegible]	[illegible]
1230	[illegible]	[illegible]	[illegible]
1300	[illegible]	[illegible]	[illegible]
1330	[illegible]	[illegible]	[illegible]
1400	[illegible]	[illegible]	[illegible]
1430	[illegible]	[illegible]	[illegible]
1500	[illegible]	[illegible]	[illegible]
1530	[illegible]	[illegible]	[illegible]
1600	[illegible]	[illegible]	[illegible]
1630	[illegible]	[illegible]	[illegible]
1700	[illegible]	[illegible]	[illegible]
1730	[illegible]	[illegible]	[illegible]
1800	[illegible]	[illegible]	[illegible]
1830	[illegible]	[illegible]	[illegible]
1900	[illegible]	[illegible]	[illegible]
1930	[illegible]	[illegible]	[illegible]
2000	[illegible]	[illegible]	[illegible]
2030	[illegible]	[illegible]	[illegible]
2100	[illegible]	[illegible]	[illegible]
2130	[illegible]	[illegible]	[illegible]
2200	[illegible]	[illegible]	[illegible]
2230	[illegible]	[illegible]	[illegible]
2300	[illegible]	[illegible]	[illegible]
2330	[illegible]	[illegible]	[illegible]
2400	[illegible]	[illegible]	[illegible]

CONTRACTS & TENDERS

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GA

General Accident

A STRONG PERFORMANCE

9-MONTHS' RESULTS

	9 Months to 30.9.95 Estimate £m	9 Months to 30.9.94 Estimate £m
General Premiums	**3,301.9**	3,198.6
Life Premiums	**1,131.1**	653.6
Life Profits	**44.9**	37.0
Net Investment Income	**375.3**	339.7
Underwriting Result	**(61.9)**	(45.9)
Profit before Taxation	**346.6**	323.7
Profit attributable to Ordinary Shareholders	**238.0**	237.1
Earnings per Ordinary Share	**52.3p**	52.4p

- Pre-tax profit of £346.6m was achieved despite weather related losses in the third quarter of £38m net.
- UK underwriting profit of £109.7m (1994: £158.1m) follows a higher level of large claims and subsidence losses in the third quarter.
- United States and Canada report a further reduction in underwriting losses in the third quarter.
- Good performances in New Zealand and Asia.
- Increased contribution from long-term business and further excellent progress in UK life operations.
- Current solvency margin 70%. Net assets per ordinary share 578p.

Nelson Robertson, Group Chief Executive, commented:

"The strength of our operating performance worldwide, together with a strong balance sheet, an increasing contribution from life business and an encouraging growth in investment earnings, gives me every reason to believe that General Accident can face the future with confidence".

General Accident plc

General Accident plc, World Headquarters: Pitheavlis, Perth, Scotland PH2 0NH

COMMODITIES AND AGRICULTURE

Russia profits from palladium demand surge

By Kenneth Gooding, Mining Correspondent

The world's voracious appetite for mobile telephones, personal computers and wide-screen televisions has brought a huge cash bonus for Russia, the biggest supplier of one of the key raw materials for thesa and other electronic devices – palladium.

Russia will supply about 4m troy ounces of palladium worth US$600m this year, according to Johnson Matthey, the biggest platinum group metals marketing organisation. This is 20 per cent ahead of last year'e record 3.3m ounces and twice the annual level Russia provided in the ten years to 1991.

Palladium is needed for the multi-layer ceramic capacitors used in electronic equipment. The metal is also benefitting from a big switch from platinum to palladium in catalysts used to reduce polluting emissions from car exhausts.

In its interim market review JM warns that Russia is having to dig deep into its palladium stocks. It produces about 2m ounces a year, so about 2m will come from atocks this year. Global demand for palladium will be about 5.37m ounces and Mr Jeremy Coombes, JM's general manager, marketing, says: "Consumers should be a bit nervous about one-third of the market being supplied from stocks".

Only a very few Russian officials know the size of the palladium stocks and that information is kept secret. Mr Coombes suggests Russian stocks have to hold out at least until the turn of the century because very little new capacity is planned elsewhere. "We don't expect palladium demand to increase by another 400,000 ounces next year as it will in 1995 but there will be pressure on supplies for at least the rest of the decade."

Uncertainty is compounded by the fact that most Russian palladium comes as a by-product from nickel mining at the Norilsk complex, which is suffering from years of under-investment. Mr Coombes says: "Norilsk is creaking. The newest plant is 15 years old and some is 50 years old. Norilsk will be struggling for at least another four or five years".

Russia sells palladium from stocks not only to raise badly-needed dollars but also to keep the price from reaching a level that would encourage substitution. But consumers are now looking for substitutes because of supply worries, says Mr Coombes. Car makers are ensuring that they can switch to platinum-based catalysts if necessary and some capacitor manufacturers are moving to nickel for some applications.

Dealing with platinum, the report's author, Ms Alison Cowley, suggests demand will rise 4 per cent this year to a record 4.71m ounces, while supply will be 8 per cent up at 4.89m ounces. Russian platinum sales are likely to be a record 1.2m ounces worth about $512m and at least 500,000 ounces will be from stocks. JM suggests the platinum price is likely to trada between $400 and $440 an ounce for the next six months and tha palladium price to range between $130 and $150.

Platinum Demand ('000 troy ounces)

	1995	1994
Autocatalyst:		
gross	1,790	1,870
recovery	(315)	(315)
Jewellery	1,805	1,735
Chemical	205	190
Electrical	195	185
Glass	215	160
Petroleum	105	90
Other industrial	225	190
Investment	365	395
Western sales to China	120	50
Total demand	4,710	4,550

Source: Johnson Matthey

Aid groups seek 'single strategy' to fight hunger

John Madeley looks forward to next week's agricultural development conference in Brussels

An ambitious attempt to bring together "two parallel agendas" concerning efforts to improve the availability of food for the world's 800m hungry people will be made next week at a Conference on Hunger and Poverty in Brussels.

The conference organiser, the United Nations Organisation's International Fund for Agricultural Development, says there are many community projects in developing countries, run by local farmers and non-governmental organisations, that are enabling people to overcome hunger. But not enough use is being made of the lessons being learnt from them.

"Hundreds of outstanding programmes throughout the world have delivered astonishing results in terms of drastic eradication of poverty at local levels," says IFAD president Mr Fawzi Al-Sultan, "but littla has been done to analyse them and replicate them at a large scale in a direct offensive for complete eradication of poverty".

Too many good ideas remain isolated, he says. And on parallel lines to NGOs, governments and official aid agencles funded by donor governments, are pursuing their own separate agenda for increasing food output and raising rural incomes, and are often not picking up the successful community programmes.

The idea of the Brussels conference ls to enable government ministers and official sector representatives to hear what NGOs are doing with some success. This is "the first ever major attempt" to do this, claims IFAD – "it is a serious attempt to merge the two agendas into one strategy for fighting hunger and poverty", explains Mr Al-Sultan.

Included in the NGO presentations will be details of how a village bank in Bangladesh lends to smallholders and the landless who cannot get loans from commercial banks. The Grameen Bank was set up in 1975 by a professor of economics, Mr Muhammad Yunus, and is now operating in 34,000 Bangladeshi villages – half the number in the country – and lending to nearly 2m people, creating prodnctive employment on a considerable scale. "Studies tell us that the nntrition level of Grameen Bank families is better than non-Grameen families, child mortality is lower and adoption of family planning practices is higher," says Mr Yunus. Although borrowers offer no collateral, the repayment rate on the loans is high – about 98 per cent are repaid on time.

A speaker from a Senegal NGO will tell how a group of village women worked with scientists to develop a technology to tackle land salinity and improve food production on swamps. In co-operation with local NGOs the technology has now been spread to other villages.

Conference participants will hear how in one of the poorest regions of Honduras, with no public institutions, farmers increased crop yields by up to 60 per cent and introduced soil conservation measures with the help of technical assistance from IFAD.

"The conference will demonstrate that effective epproaches have been developed and are working, and that there are solutions to poverty and environmental problems," says Mr Donald Brown, IFAD'e vice-president.

Although it is an official aid agency, lending to small-scale farmer projects, IFAD is working with 130 NGOs and is therefore acting as a bridge between formal and informal sectors. It points out that governments and NGOs are co-operating effectively in soms areas. A joint programme between the Belgian government, official aid agencies and NGOs in six African countries, for example, run by an NGO, The Belgium Fund for Survival, was credited in a recent assessment of "achieving sustainable development for tens of thousands of people". In Ethiopia, the programme has encouraged the Ministry of Agriculture to work with NGOs to promote projects initiated by farmers.

In Peru, in the late 1980s, NGOs began to provide services to farmers when it became clear that public sector institutions were not doing it. This eventually led the public sector to decentralise its system for providing these services and to create rural development committees of more help to farmers.

The conference will also look at how government-funded agricultural research is often done without consulting the people it is supposed to benefit. Mr Bahman Mansuri, the conference Secretary-General, says there are many research programmes going on around the world, "with no linkage with peopla". He says the conference's aim is to "turn around the research agenda and revaluate the importance of people's knowledge".

Papua New Guinea to float 49% of state minerals group

By Nikki Tait in Sydney

The Papua New Guinea government has announced plans to float a 49 per cent interest in its Mineral Resources and Development Corporation, which holds the government's stake in a number of large resource projects in the country, in the first half of 1996.

Mr Chris Haiveta, finance minister, said last week that the shares would be offered to both local and international investors, and he put the estimated proceeds from the 49 per cent interest at 300m to 400m kina – US$230m to $300m.

MRDC's interests include stakes in the large Porgera gold mine, operated by Placer Pacific; in the Chevron-run Kntubu oil development; in Placer's Misima gold mine; and in a couple of smaller mining developments.

The corporation also holds the government's interest in the US$670m Lihir gold mine project, for which funding has now been secured and which is scheduled to start production early in 1998. The Lihir project is being managed by Britain's RTZ. Overall, MRDC's asset value is put at around 720m kina.

The PNG government, which has been battling severe financial problems recently, first mooted the possibility of selling an interest in MRDC in March. Sir Julius Chan, the country's prime minister, told a conference in Sydney that the move could raise working capital for future mining investments – a notion thet Mr Haiveta repeated last week.

Prior to March, the government had talked about selling its shares in individual projects. However, some observers speculated that that would have created problems with private sector joint venture partners, and that the float of a minority interest in e holding company would prove simpler. Salomon Brothers Australia is advising on the flotation.

Tax regime agreed for Placer's copper-gold mine project in Fiji

By Nikki Tait

Placer Pacific, an Australian-listed company controlled by Placer Dome, has reached agreement with the Fiji government about tha tax regime that would cover any development of the Namosi copper-gold project on Viti Levu, one of Fiji's larger islands, close to the capital of Suva.

The project has been under a clond for months while the company and the government have negotiated. Placer said on Monday that the resource, while large, remained sub-economic because of the low grades of copper and gold, but that the fiscal regime would "provide the best opportunity for continuing exploration and assessment, hopefully leading to mine development".

The resource has been calculated at 930m tonnes, grading 0.43 per cent copper and 0.14 grams gold per tonnes.

MARKET REPORT

Cash copper premium hits $265

COPPER prices ended lower on the London Metal Exchange yesterday but not before cash moved to its widest premium over three month levels during the whole of tha 1994-95 bull cycle.

Panic covering of nearby short positions during the morning copper ring sessions pushed cash to a $265 a tonne premium to three months at one point before it settled back to around $225 by the afternoon kerb close.

"With the backwardation [cash premium] out here this market could go either way," said William Adams, analyst at Rudolf Wolff. "It is very nervous. . . and likely to remain so."

The cost of borrowing metal for one day moved out to $17 backwardation before narrowing to about $10/11.

LME copper stocks rose 2,325 tonnes, but the figure was in line with expectations and had little impact.

Chartists said the softer close left copper vulnerable to further losses. An opening today below $2,768 a tonne for the three months delivery price would signal a bearish "island reversal", they noted.

At the London bullion market precious metals drifted lower in the afternoon as commission house selling and long liquidation following last Friday's option expiry put pressure on the markets.

GOLD ended at $385.85 a troy ounce, down $2.15.

Compiled from Reuters

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	-1,375	to 588,125
Aluminium alloy	+320	to 51,040
Copper	+2,325	to 209,850
Lead	-2,575	to 184,175
Nickel	-276	to 49,074
Zinc	-1,800	to 899,580
Tin	-270	to 12,880

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

[illegible]

Precious Metals continued

[illegible]

GRAINS AND OIL SEEDS

[illegible]

SOFTS

[illegible]

MEAT AND LIVESTOCK

[illegible]

ENERGY

[illegible]

PRECIOUS METALS

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

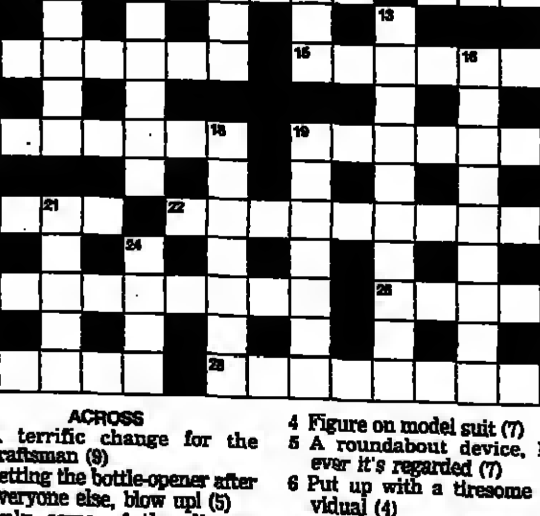
INDICES

[illegible]

JOTTER PAD

CROSSWORD

No.8,919 Set by VIXEN



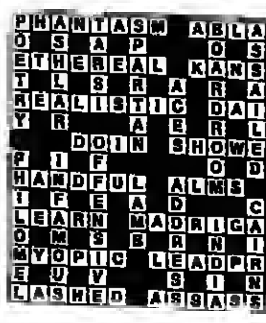
ACROSS

1 A terrific change for the craftsman (9)
6 Getting the bottle-opener after everyone else, blow up! (5)
9 Only some of the dinner-ladies will be on target (5)
10 There can be no eminence with debts, that's well known (9)
11 Taking ages to cart off protective clothing (10)
12 Pen a note affecting the viewer (4)
14 Regular habit (7)
15 Regret having to do with code (7)
17 The underworld class appears really cut up (7)
19 Many e male among the moggies is a good mouser (7)
20 The right time of life for passion (4)
22 Mature way to consider doctor (10)
25 Tha bloomer of a witless push-over (9)
26 Ben is resolved to become a writer (5)
27 Made an assignation, though somewhat passé (5)
28 Defectors maybe agreed about one point and then another (9)

DOWN

1 Flying can be daunting (6)
2 Skin treatment works (9)
3 The reorganised force trims the advance party (5,5)
4 Figure on model suit (7)
5 A roundabout device, however it's regarded (7)
6 Put up with a tiresome individual (4)
7 Encompassing e fight (5)
8 Settles as required for flat (9)
13 Give voice about concern – though not a lot (10)
14 Franco-German articles to pass over in secret (9)
16 Practised play (9)
18 A manual worker filled up with divine fish (7)
19 Visits give a boy a name! (5,3)
21 American president's award (5)
23 In summer nesting birds may be seen (5)
24 Antarctic explorer going by road! (4)

Solution 8,918



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INTERNATIONAL CAPITAL MARKETS

Treasuries lower despite weak retail sales

By Lisa Bransten in New York and Antonia Sharpe in London

US Treasury bonds fell victim to some profit-taking in early trading yesterday after initially jumping on news that October retail sales were weaker than many economists had expected.

Near midday, the benchmark 30-year Treasury was $\frac{3}{32}$ lower at $107\frac{27}{32}$ to yield 6.286 per cent. At the short end of the maturity spectrum, the two-year note was unchanged at 100¼, to yield 5.470 per cent.

Retail sales slipped 0.2 per cent last month, suggesting to several economists that economic growth in the fourth quarter will be well below that of the surprisingly strong third quarter. Not including the volatile motor vehicle component, sales were off 0.5 per cent. Economists had expected retail sales to be unchanged both with and without the vehicle component.

Despite mounting signs of economic weakness, however, few economists believe the Federal Reserve's Open Market Committee will lower interest rates at today's meeting because Congress and President Bill Clinton have yet to agree to a deficit reduction package.

"In normal times we would be looking for a rate cut at tomorrow's FOMC, but with the current budget shenanigans the Fed will probably wait until December 19," said Mr Julian Jessop of HSBC Markets Research.

On Monday, the Treasury Department announced steps to ensure the US would not default on Treasury obligations, but uncertainty has remained because the failure to reach a budget agreement caused the president to shut government offices that produce economic data, such as today's consumer price index.

■ Weaker than expected US retail sales data and persistent hopes of lower German interest rates underpinned the European government bond markets but trading was quiet.

GOVERNMENT BONDS

■ The French market is expected to be the centre of attention today when Prime Minister Alain Juppé announces his proposals to reform the social security system. Progress on tackling the social security deficit should enable the Bank of France to cut interest rates.

The market was confident that the prime minister would announce sufficiently higher taxes and spending cuts. Dealers said the yield spread between French and German government bonds could widen back to 100 basis points if the measures were not austere enough. The spread narrowed to about 75 basis points yesterday from 80 basis.

On Matif, the December 10-year bond future rose 0.16 to 118.32 on volume of 118,205 contracts, off the day's 118.52 high.

■ Bunds were firmer on continued expectations thet the Bundesbank would cut official interest rates at its regular council meeting tomorrow. Ms Phyllis Reed, European bond strategist at BZW, said she did not rule out a half-point cut in the discount rate, currently at 3½ per cent.

The market widely expects the repo rate to drop below 4 per cent today. On Liffe, the December bund future rose to a day's high of 97.66 before easing back to 97.56 in the late afternoon for a gain of 0.11, on volume of 91,932 contracts.

■ The UK gilts market had a pause from economic data in a week crammed full of them. Today's raft of indicators includes October retail sales and unemployment figures.

The December long gilt future briefly rose above 108, seen as an important resistance point, but fell back in the afternoon to trade around $107\frac{27}{32}$, up $\frac{5}{32}$ on the day on volume of 35,099 contracts.

"The market is waiting for some good domestic news to go above 108 in a sustainable way," said Mr Simon Briscoe, gilts analyst at Nikko.

Consortium in $1.6bn Indonesian financing

By Antonia Sharpe

Siemens Power Ventures of Germany and the UK's PowerGen have appointed a group of banks to underwrite a $1.6bn financing for a power project in East Java, Indonesia.

The Jawa power project, in which Siemens has a 50 per cent stake and PowerGen 35 per cent, signed a power purchase agreement with PLN, the Indonesian state utility, in April for the sale of electricity from the plant for 30 years. The other 15 per cent is owned by an Indonesian partner.

Siemens will build the 1,220 megawatt coal-fired power station, which should take about four years. PowerGen will be responsible fur running the station.

Of the total financing, $300m will be provided by Siemens and PowerGen as an equity contribution. The other $1.3bn, which has been underwritten by J. P. Morgan, Credit Suisse, Dresdner Bank, Sanwa Bank and Toronto Dominion Bank, will be syndicated. J. P. Morgan is overall financial adviser to the consortium.

The financing, which is expected to be in place by the end of January, will have a tenor of 15 to 16 years, double that previously available to Indonesia. The margin over Libor is expected to be well below the 225 basis points paid on past Indonesian projects, reflecting the strength of the project's sponsors.

The US Export-Import Bank and Hermes, the German export credit agency, will each provide guarantees for $400m of the debt while $250m will be covered by a newly available political risk insurance from the German government. A further $100m will be raised through a US private placement and the remaining $150m will be pure Indonesian risk.

Trading starts on Thailand's OTC market

By Ted Bardacke in Bangkok

Trading on Thailand's long-awaited over-the-counter stock market began yesterday, when shares of the only company listed, medium-size property developer Sinsubnakhorn, started changing hands.

Officials at the Bangkok Stock Dealing Centre, as the OTC market is officially called, say at least 10 companies will list on the exchange in the first six months of next year.

The OTC market is expected to attract small and medium-size firms which can adhere to the regulations of Thailand's Securities & Exchange Commission for going public but are unable to meet the Stock Exchange of Thailand's (SET) requirements on minimum capital or proven record of profitability.

Total Access Communications, a Thai cellular phone operator listed only last month in Singapore, has also applied to list on the OTC market. Total Access was earlier denied a listing on the main Stock Exchange of Thailand because its parent company, United Communication, is already listed and derives a majority of its income from Total Access.

Companies that have already gone public but are awaiting a full listing on the SET, which can often take months after an initial public offering is completed, are also expected to list on the OTC market in the meantime.

Currently, the shares of these companies trade on an unofficial grey market, which is generally shunned by foreign investors.

Sinsubnakhorn is an example of a company with both these characteristics. It went public in July but the SET has refused to list its shares pending a further examination of its actual revenues.

The company's shares now trade on the grey market but uncertainty has limited their liquidity and held down the price.

Shares of Sinsnbnakhorn closed up Bt0.5 yesterday at Bt30.5 on a volume of 2.16m. At one point during the 2½ hour trading session, the share price reached Bt36. Turnover value was Bt69.84m. The closing price is well below Sinsubnakhorn's initial public offering price of Bt46.

Investors in OTC-listed companies are likely to be primarily retail Thai investors. Foreign institutional investors say the low capitalisation of the companies on the OTC market and fears of illiquidity will largely keep them away, except on a temporary basis as a substitute for the grey market.

A 15 per cent tax on capital gains for foreign individuals, compared with an exemption on the SET, is another disincentive.

Thai mutual funds are potential players in the market but are also waiting to assess liquidity conditions. In an effort to boost trading opportunities, OTC market officials say they will employ a modified market-making system, whereby certain brokers will be required to maintain buy and sell offers on certain stocks at all times.

The other attraction of the OTC market is cost. An initial OTC listing will cost no more than Bt2m, compared with more than Bt4m to list on the SET. The annual listing maintenance fee of up to Bt3m is also about half that charged by the SET.

The 74 member brokers of the market have contributed Bt6.76m each, or a total of Bt500m, to set it up.

Burst of activity as US debt fears ease

By Conner Middelmann

The eurobond market exploded in a burst of activity yesterday as fears over the US debt impasse receded. The D-Mark sector was particularly active with the launch of seven deals worth more than DM2bn.

INTERNATIONAL BONDS

A DM500m 10-year issue for Dentsche Ausgleichsbank, the German government-owned development bank, was widely seen as one of the day's most successful D-Mark deals. Yielding 29 basis points over bunds at the re-offer price, the issue was deemed fairly priced. Joint leads Dresdner Bank and Merrill Lynch reported strong international placement, especially in the Far East.

A DM500m issne for the State of Baden-Württemberg, by contrast, was criticised by several dealers for being too tightly priced, yielding 23 basis points over bunds at the issue price less full fees.

However, a syndicate manager at ABN Amro Hoare Govett, joint lead with SüdwestLB, said the yield discoont to the Ausgleichsbank issue was justified by the paper representing sovereign rather than bank debt. He said much of the paper had been placed with Dutch institutions and it was "almost sold out".

Südwestdentsche Landesbank issued DM350m of five-year bonds via UBS which were expected to be placed in Switzerland and the Korea Export-Import Bank issned DM350m of three-year bonds targeted mainly at German retail and institutions.

Lead manager Commerzbank reported good demand but others said investor appetite had been dampened by the significant widening in Korean bond spreads in recent weeks.

In US dollars, Cadbury Schweppes issued $200m of three-year bonds via Deutsche Morgan Grenfell. The paper was targeted largely at Swiss and Benelux retail investors, who are still seeking short-dated dollar bonds.

In the yen sector, Sweden issued Y50bn of 15-year bonds aimed at specific Japanese institutional investors, while the Inter American Development Bank launched Y30bn of seven-year bonds aimed at Japanese regional banks.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
CMCCT 1, 1995-3, Cls.A(a1)	450	(a2)#	(a2)R	Aug.2002	-	(a1)(6⅝%-02)	Chemical Securities
CMCCT 1, 1995-4, Cls.A(a3)‡	300	(a4,s)	(a4)R	Nov.2002	-	-	Chemical Securities
MMCCT 2, 1995-J, Cls.A(b)‡	435	(b1)	100.00R	Nov.2002	undiscl.	-	JP Morgan Securities
Telstra Corp.	250	6.50	99.70R	Nov.2005	0.35R	+48(6½%-05)	JP Morgan Securities
Cadbury Schweppes	200	5.875	99.962R	Dec.1998	0.20R	+22(WI 3yr)	Deutsche Morgan Grenfell
DSB, Sao Paolo Branch(c)	70	8.50	99.875R	Nov.1996	1.00R	+376(5⅝%-96)	Dresdner Bank
Banco Itamarati(Grd.Cayman)	50	10.50#	99.992R	Nov.1996	0.75R	+500(7¼%-96)	JP Morgan Securities
D-MARKS							
Deutsche Ausgleichsbank	500	6.50	98.235R	Nov.2005	0.325R	+29(6½%-05)	Dresdner Bank
State of Baden-Wuerttemberg(s)	500	6.50	102.19	Sep.2005	2.50	-	ABN Amro HG, Frankfurt
Sudwest. LB Capital Markets	350	5.25	99.44R	Dec.2000	0.25R	+31(5¾%-00)	UBS Germany
Korea Export-Import Bank	350	5.00	101.75	Dec.1998	1.80	-	Commerzbank
Oest. Investitionskredit	200	6.125	101.875	Dec.2002	2.75	-	DG Bank
Telekom Pool Finanz.(d)	150	4.30	100.00R	Nov.1997	0.0932R	+20(5¼%-97)	Merrill Lynch Bank
YEN							
Kingdom of Sweden(e)★	50bn	3.23	100.40	Dec.2010	0.40	-	Daiwa Europe
Inter-American Dev. Bank(s)★	30bn	2.25	100.00R	Feb.2002	0.275R	-	Nikko Europe
Belgacom★	10bn	(f)	100.50	Dec.2015	0.50	-	Daiwa Europe
SWISS FRANCS							
Mitsui High-Tec(g)Φ★	120	0.75	100.00	Nov.1999	1.625	-	UBS
GUILDERS							
Philips Electronics	300	5.75	99.83R	Dec.2000	0.30R	+40(9¼%-00)	ING Bank

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ★Unlisted. ΦWith equity warrants. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Chemical Master Credit Card Trust. a1) Legal maturity: 15/4/05. a1) Priced later around Ts +47bp. a2) Legal maturity: 15/7/05. a3) Priced later: 3-mth Libor + approx 20bp. b) MBNA Master Credit Card Trust. Legal maturity: 15/4/05. b1) 1-mth Libor +23bp. b2) Tranche B: $22½m, 16/12/02, 1-mth Libor +35bp. c) Deutsch-Suedamerikanische Bank. d) Backed by obligations of Republic of Austria. e) Short 1st & last coupons. f) 5.86% in A$ or 5.31% in CM or 6.61% in US$ at issuers option. Short 1st & 2nd coupons. g) Fixing: 21/11/95. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	92.8000	+0.430	8.81	8.73	8.70
Austria		9.875	06/05	100.5200	+0.100	6.79	6.87	6.95
Belgium		6.500	03/05	97.7000	+0.090	6.83	6.88	7.07
Canada *		8.750	12/05	107.8900	+0.200	7.60	7.60	7.63
Denmark		7.000	12/04	96.1000	+0.160	7.61	7.73	7.89
France	BTAN	7.750	04/00	105.3750	+0.125	6.31	6.47	6.73
	OAT	7.750	10/05	104.6300	+0.030	7.09	7.18	7.50
Germany Bund		6.500	10/05	101.2500	+0.050	6.32	6.40	6.58
Ireland		6.250	10/04	89.7500	+0.100	7.89	7.90	8.17
Italy		10.500	09/05	95.0000	+0.350	11.35†	11.42	11.51
Japan	No 129	6.400	03/00	120.0030	-0.090	1.48	1.56	1.48
	No 174	4.600	09/04	113.1440	-0.250	2.75	2.77	2.55
Netherlands		7.000	06/05	104.5500	+0.130	6.34	6.45	6.63
Portugal		11.875	02/05	105.5200	+0.520	10.86	11.06	11.18
Spain		10.150	01/06	94.9900	-	10.61	10.75	10.85
Sweden		6.000	02/05	80.7330	+0.162	8.18	8.20	9.34
UK Gilts		8.000	12/00	103-09	+3/32	7.21	7.28	7.45
		8.500	12/05	104-22	+13/32	7.82	7.87	8.04
		8.000	10/08	109-13	+4/32	7.94	7.99	8.15
US Treasury *		6.500	08/05	103-29	-1/32	5.96	5.98	6.10
		6.875	08/25	107-26	-7/32	6.29	6.31	6.41
ECU (French Govt)		7.500	04/05	100.2500	+0.120	7.45	7.59	7.78

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.66	Two year	5.50
Prime rate	8¾	Two month	5.67	Three year	5.59
Broker loan rate	7½	Three month	5.57	Five year	5.73
Fed.funds	5¾	Six month	5.54	10-year	5.97
Fed.funds at intervention	-	One year	5.44	30-year	6.29

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	118.28	118.32	+0.16	118.52	118.20	118,205	105,111
Mar	117.80	117.56	+0.12	117.70	117.46	1,865	11,843
Jun	117.78	117.74	+0.12	117.86	117.78	15	2,959

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
116	-	-	-	0.03	0.58	0.90
118	2.40	-	-	0.07	0.82	-
117	1.50	1.71	-	0.18	1.13	1.54
118	0.71	1.20	-	0.38	1.57	-
119	0.26	0.74	-	0.91	-	-

Est. vol. total, Calls 18,126 Puts 16,280. Previous day's open int., Calls 157,433 Puts 167,032.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.48	97.53	+0.08	97.66	97.44	102716	201121
Mar	96.92	96.93	+0.07	97.05	96.89	1360	12616

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
9750	0.30	0.37	0.63	0.81	0.27	0.94	1.20	1.38
9800	0.11	0.23	0.45	0.62	0.58	1.30	1.52	1.69
9850	0.04	0.13	0.32	0.46	1.01	1.70	1.89	2.08

Est. vol. total, Calls 31890 Puts 9890. Previous day's open int., Calls 210066 Puts 202806

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.45	103.35	-0.01	103.79	103.22	36126	40398
Mar	103.10	102.95	-0.01	103.20	102.90	397	2411

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
10300	0.72	2.02	0.37	2.07
10350	0.45	1.79	0.60	2.34
10400	0.27	1.57	0.92	2.62

Est. vol. total, Calls 2838 Puts 3005. Previous day's open int., Calls 51090 Puts 48231

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	90.19	90.31	+0.22	90.55	90.15	53,602	33,193
Mar	90.26	90.18	+0.29	90.26	90.07	408	2,173

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107-24	107-26	+0-05	108-03	107-18	40061	102429
Mar	107-05	107-06	+0-05	107-08	107-05	1996	4903

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
107	1-05	1-14	1-41	1-59	0-17	1-02	1-29	1-47
108	0-30	0-48	1-11	1-28	0-42	1-36	1-63	2-12
109	0-10	0-28	0-52	1-02	1-22	2-18	2-40	2-54

Est. vol. total, Calls 2628 Puts 866. Previous day's open int., Calls 35954 Puts 35057

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	88.54	88.52	+0.10	88.56	88.42	1,748	9,100

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	117-24	117-21	-0-02	118-09	117-17	526,445	382,799
Mar	117-10	117-10	-0-02	117-26	117-05	6,665	50,902
Jun		116-28				261	10,616

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Dec	121.86			121.92	121.60	2122	0
Mar	120.61			120.92	120.60	772	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Tue Nov 14	Day's change %	Mon Nov 13	Accrued interest	xd adj. ytd		Low coupon yield Nov 14	Nov 13	Yr. ago	Medium coupon yield Nov 14	Nov 13	Yr. ago	High coupon yield Nov 14	Nov 13	Yr. ago
1 Up to 5 years (22)	122.13	+0.10	122.00	1.81	9.72	5 yrs	7.30	7.34	8.51	7.31	7.35	8.56	7.40	7.43	8.88
2 5-15 years (21)	146.28	+0.17	146.03	1.12	11.73	15 yrs	7.98	7.98	8.48	8.01	8.02	8.60	8.08	8.10	9.84
3 Over 15 years (9)	162.77	+0.15	162.53	1.82	12.13	20 yrs	8.02	8.03	8.46	8.05	8.06	8.60	8.11	8.13	8.75
4 Irredeemables (6)	186.19	+0.52	184.23	0.58	13.47	Irred.†	8.10	8.14	8.55						
5 All stocks (58)	142.00	+0.15	141.79	1.51	11.18										

Index-linked							Inflation 5% Nov 14	Nov 13	Yr. ago	Inflation 10% Nov 14	Nov 13	Yr. ago
6 Up to 5 years (1)	194.50	-0.07	194.63	0.46	8.37	Up to 5 yrs	3.11	3.07	4.06	2.04	2.00	2.97
7 Over 5 years (11)	187.35	+0.10	187.18	1.07	4.45	Over 5 yrs	3.64	3.64	3.87	3.45	3.46	3.69
8 All stocks (12)	187.38	+0.10	187.18	1.06	4.54							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 14	Nov 13	Nov 10	Nov 8	Nov 9	Yr ago	High*	Low*
Govt. Secs. (UK)	94.35	94.07	93.94	94.14	94.44	91.83	95.51	90.22
Fixed Interest	112.78	112.58	112.62	112.85	112.75	107.92	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 13	Nov 10	Nov 9	Nov 8	Nov 7
Gilt Edged bargains	72.7	81.7	85.4	79.0	79.3
5-day average	79.6	79.6	82.3	83.5	85.0

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 14

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	99⅛	99¼		5.75
Abbey Natl Treasury 6½ 03	1000	100	100¼	+⅛	6.49
ABN Amro Bank 7¼ 05	1000	104⅜	104⅝	+⅛	6.73
Sweden 8 97	2500	106¼	106⅜		4.36
United Kingdom 7¼ 97	5500	105⅛	105½		4.20
Volkswagen Intl Fin 7 03	1000	102⅞	103	-⅛	6.50
World Bank 0 15	2000	27¼	27⅜	+⅛	6.71
Abbey Natl Treasury 8 03 £	1000	99	99¼	+⅛	8.17
Alliance Leics 11⅛ 97 £	100	108	108¼		6.91
British Land 8⅞ 23 £	150	93⅛	93⅜	+⅛	9.01
Denmark 6¼ 98 £	800	98⅞	99		7.20
[illegible]					

UK GILTS PRICES

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

US government shutdown weighs down on dollar

By Philip Gawith

Foreign exchanges yesterday took a fairly sanguine view of the continued budget wrangling in the US, although signs of the government starting to shut down were sufficient to offset the optimism generated on Monday when it became clear that debt default would probably be avoided.

Trading was generally fairly quiet, with many long term investors having taken to the sidelines until the budget imbroglio is resolved. Developments in the US, however, were sufficient to overshadow happenings elsewhere in the currency markets.

The dollar finished half a pfennig lower in London against the D-Mark at DM1.4145, from DM1.4195. Against the yen it closed at Y101.54 from Y101.725.

In Europe, the D-Mark was generally slightly firmer, against the backdrop of a weaker dollar. Against the French franc it finished at FFr3.451, from FFr3.447.

Sterling gained nearly a cent against the dollar to finish at $1.564 from $1.5587, but against the D-Mark it was unchanged at DM2.2123.

Two exotic currencies which came under pressure were the Mexican and Philippine pesos. The Mexican peso finished in London at 8.15 pesos against the dollar, from 7.795 pesos, while the Philippine peso slipped to a 13 month low against the dollar of 26.2 pesos, from 26.11 pesos.

■ The dollar was bought during the European morning following the market's positive response to the Treasury's efforts to avoid a debt default. These gains were then ceded in the afternoon as parts of government started to close down.

Mr Neil MacKinnon, chief economist at Citibank in London, said most longer term investors were not actively in the market. He said many fund managers had had a good year and were "hoping for an early Christmas." He said there was little appetite for risky strategies, and an absence of strong views, hence the dollar's range-bound pattern.

Mr MacKinnon said there had been a "high degree" of complacency about the prospect of a debt default.

Mr *Julian Jessop, international* economist at HSBC Markets in London, said investor sentiment about events in the US was still ebbing and flowing. He said the trends in customer sentiment were such that "the further away you get from Washington, the more worried you are."

"The problem," said Mr Jessop "is that even if you accept they are not going to default, it still looks bad. It leaves a question mark hanging over the credibility of the policy-making process, casting more doubt on the continued eligibility of the dollar as a safe-haven currency."

Also weighing on the dollar was the rumour that Mr Eisuke Sakakibara, head of the international finance division of the Japanese Ministry of Finance, had resigned. This was taken as a reason to sell the dollar, because he was viewed as being the key architect behind the weak yen philosophy that the Bank of Japan has pursued in recent months.

■ Among the more significant developments in Europe was the release of the "wise men" report in Germany which said the economic outlook was now less favourable than it had been at the start of the year.

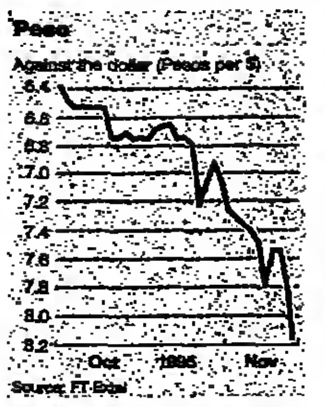
Mr Jessop said it now appeared to be only a matter of time before there was another cut in the German discount rate. He said the M3 indicator was the only one inconsistent with an easing of monetary policy.

■ Interest rates in Mexico continued to climb, with the same day cetes rate opening 517 basis points higher, at 78.17 per cent. Analysts said the peso was suffering from market perceptions that the upcoming 1996 budget would not be well received by investors.

Traders said the fall in the Philippines peso had been prompted by the withdrawal of one foreign fund that had been unnerved by developments in Mexico.

The currency has also been unsettled by domestic economic events, with the country looking unlikely to meet its 8.5 per cent inflation target, and the government having to make large imports of rice following a poor local crop.

■ The Bank of England provided £731m assistance towards clearing a £800m market shortage. Three month LIBOR was unchanged at 6⅝ per cent.



■ **Pound in New York**

Nov 14	—Latest—	– Prev. close –
£ spot	1.5605	1.5540
1 mth	1.5593	1.5529
3 mth	1.5574	1.5509
1 yr	1.5480	1.5400

■ **OTHER CURRENCIES**

Nov 14	£	$
Czech Rp	41.0818 - 41.1338	26.2820 - 26.2920
Hungary	207.351 - 207.562	132.620 - 132.670
Iran	4693.50 - 4690.50	3000.00 - 3000.00
Kuwait	0.4692 - 0.4698	0.3001 - 0.3003
Poland	3.8642 - 3.8698	2.4716 - 2.4735
Russia	7098.13 - 7098.28	4537.00 - 4540.00
U.A.E.	5.7426 - 5.7487	3.6729 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or -	1995 high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cu 2nd Pf		50½	—	98	50¼	6.31	10.8	–
Cater Allen	♣v	468	—	525	416	102.8	7.7	7.1
Close Bros	♣gv□	320	—	*340½	218¼	384.3	3.4	Φ
Gerrard & Nat	♣v	463xd	+1	490	395	225.9	6.1	15.0
Hambros	v□	195	+6	233	190	381.8	4.6	48.6
7½pc Cv Pf		95½	—	112	84	123.0	3.8	–
Joseph (L)	♣v	463	—	469	353	24.5	4.8	29.9
King & Shaxson	♣v□	116	—	145	90	29.3	9.9	8.9
Rea Brothers	♣v	45	—	67	44	21.6	2.8	18.8
Schroders	♣†tv□	1303	+8	*1478	908¼	1,957	1.4	18.6
N/V	†tv	1093	+5	*1180	823¼	488.9	1.8	15.6
Singer & Fried	♣†v□	109	—	118	81	214.4	4.2	11.3
8½pc Cv Ln 09/14		£133½	—	£133½	£108	40.9	6.4	–
Union	♣v□	112	—	121	70	29.9	3.3	–
Waimost	♣v	295	—	298	200	29.4	4.8	16.9

BANKS, RETAIL

	Notes	Price	+ or -	1995 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£27⅛	-⅛	£28⅛	£21⅛	8,470	4.8	19.3
ANZ A$	†	277	+5	280	198	3,848	5.0	8.4
Abbey National	♣†v□	568	+1	579	413	7,910	4.2	11.4
Allied Irish I£	♣†□	341	+7	341	250	2,273	4.2	8.6
Anglo Irish I£	□	64	—	65	40	220.2	5.9	12.5
Asahi Y	□	686	-2¼	857¼	605¼	16,461	9.7	–
Banco Bil Viz Pta	□	£19⅞	-⅛	£20½	£14⅞	4,489	4.2	9.8
Banco Sant Pta		£27⅞	—	£27⅞	£22⅞	4,412	4.0	19.0
Bk Ireland I£	†v□	456	+16	456	298	2,189	3.8	9.8
Bank Scotland	♣†v□	280xd	-1	279½	191½	3,062	3.0	11.5
9¼pc Pf		108½xd	—	129	109¼	109.5	10.6	–
New 9 1/4pc Pf		108½xd	—	116¼	108¼	160.6	10.6	–
9¾pc Pf		117xd	+½	125¼	112¼	171.6	10.4	–

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or –	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31¾	—	£34	£29	2,108	2.7	Φ
Barlow	♣	25⅝	—	£27⅝	£4½	1,723	1.7	Φ
Gold Flds Prop R		18⅝	—	182	118	18.3	7.8	6.8
NK Props		86	—	95	83	3.48	13.7	–
SASOL	♥	637	+7	648	435	3,144	2.6	–
SA Brews		221	–½	221½	212½	5,891	1.7	28.5
Standard Bank	□	£28¾	–⅛	£27½	£20¼	3,218	1.7	18.7
Tiger Oats		1040	—	1087	700	1,584	1.4	24.8
Tongaat-Hulett	†♭	882	—	882	836	808.9	1.6	26.2

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IMR 'Headline Earnings' formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
S Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GT Asset Management (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

CFP Interest Rate Arbitrage Fund Plc

Calpine Fund

Capital Vision Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

DIT Dresdner Global Strategies Fund

Daiwa Europe Fund Managers Ireland Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

CMI Fund Managers (IoM)

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الاصل

FT MANAGED FUNDS SERVICE

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Clemente Korea Emerging Growth Fund

NAV Nov 10 ... $11.32 -0.16

Credis Investment Funds

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

Monterey Trust SICAV

NAV $20.10

Morgan Stanley Sicav

[illegible]

Murray Universal, Sicav

[illegible]

NICAM Asia Pacific Umbrella Fund

[illegible]

Nikko Asia Convertible Bond Fund

[illegible]

Nikko Bank (Luxembourg) S.A.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

Equities respond to return of confidence in bonds

By Steve Thompson, UK Stock Market Editor

An air of quiot confidence descended on London's stock market yesterday as if the recent potential for a financial market meltdown, resulting from the crisis over tho US budget, had never happened.

International bonds built on tho previous day's gains, although closing well below the day's highest levels. Most European stock markets performod sedately and London responded to various pockets of good nows, preferring to ignore somo bad nows in tho form of a handful of profits warnings.

London was never ever rattled, and eventually settled only marginally below the day's highest level. The FT-SE 100 index finished 11.1 ahead at 3,547.9, having just failed to regain the 3,550 mark lost towards tha end of last month.

The FT-SE Mid 250 underperformed its senior index, bnt nevertheless made good progress, ending 8 points to the good at 3,905.3, holped by outstanding performances by Cobham, tho former Flight Refuelling group, which revealed a substantial acquisition, and gains in excess of 4 per cent in Taylor Woodrow, the construction company, BICC and Hambros.

The good news in the FT-SE 100 came from Rolls-Royce, whose shares forged ahead in the wake of news that Singapore Airlines is buying a batch of jet aircraft from Boeing, of the US, with engines manufactured by the UK company. Other strong performances were forthcoming from P&O, lifted by disposal hopes, and British Gas, which is oxpected to unvail results this morning.

Banking shares were again prominent, with broker recommendations provoking renewed strong demand, plus hopes of a share buyback movo by National Westminster.

It was not all good news for the market, however, with Arjo Wiggins Appleton providing the latest profits warning to affect the market, following similar moves recently from Ladbroke, Calor, Evans Halshaw and Hickson. Geest was another profits warning casualty, the shares plunging 23 per cent.

The FT-SE 100 began almost six points highor and gradually improved, although not without one or two minor setbacks on the way, to reach a session's high of 3,549.2, shortly before Wall Street opened.

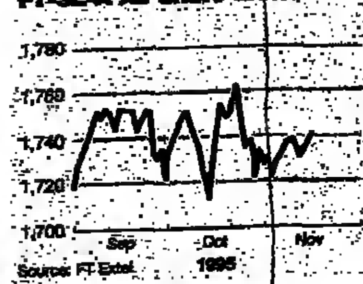
US markets were never really pressured, and began to creep ahead during London trading hours, helping European markets on to an even keel. The Dow Jones Industrial Average was around 13 points ahead an hour after London closed.

Turnover in equities reached 756.8m shares by 6pm, with non-Footsie stocks accounting for 55 per cent of the total. Customer business on Monday was valued at £1.15bn.

This morning brings a long list of economic data from both sides of the Atlantic; in the UK, there are average earnings, unit wage costs, unemployment figures, retail sales and the minutes of the September 29 meeting between the chancellor of the exchequer and the governor of the Bank of England.

From the US comes inflation data, industrial production figures and capacity utilisation numbers, as well as the Federal Reserve's Open Market Committee meeting.

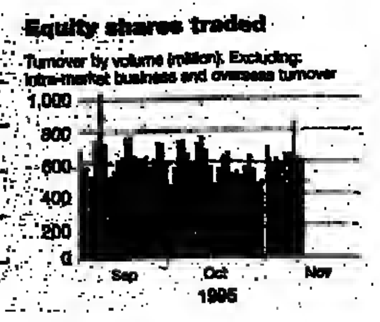
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3547.9	+11.1
FT-SE Mid 250	3905.3	+8.0
FT-SE-A 350	1764.3	+5.1
FT-SE-A All-Share	1741.55	+4.63
FT-SE-A All-Share yield	3.87	(3.88)
FT Ordinary index	2604.2	+15.9
FT-SE-A Non Fins p/e	16.69	(16.62)
FT-SE 100 Fut Dec	3554.0	+11.0
10 yr Gilt yield	7.81	(7.83)
Long gilt/equity yld ratio:	2.10	(2.09)

Best performing sectors

1 Gas Distribution .... +2.8
2 Oil, Integrated .... +1.3
3 Textiles & Apparel .... +1.0
4 Mineral Extraction .... +0.9
5 Oil Exploration & Prod .... +0.8

Worst performing sectors

1 Extractive Inds. .... -1.0
2 Life Assurance .... -0.9
3 Insurance .... -0.8
4 Telecommunications .... -0.7
5 Paper, Pckg. & Print. .... -0.8

Profits warning hits Arjo

Paper group Arjo Wiggins Appleton shocked the market with a stark profits warning. The shares fell 26 at worst, in reaction to an announcement that 1995 profits would be materially below those of 1994.

Subsequently, profits forecasts were scaled back sharply. Panmure Gordon, already at the lower end of the consensus range, lopped £55m off the current year figure to reach a new forecast of £185m before exceptionals. Analyst Ms Francesca Raleigh commonted: "Tho question is whether this is merely destocking, or is there a wider thome of economic slowdown."

However, there were mutterings that at the current share price level St Louis, tho French group which owns 40 per cent of the stock, could possibly be tempted to sell out to a predator if the offer price was right. As tho day wore on the shares clawed back somo of their loss to end 11½ lower at 194½p.

Vodafone hint

Mobilo phones group Vodafono continned to retreat, logging a three-day decline of 6 per cent as stories about slowing cellular growth and a possiblo rights issuo provoked uncertainty ahead of next week's interim results.

The shares fell 6¼ to 251½p, with what dealers described as "good steady selling" hoisting turnover to 20m.

Third quarter cellular growth in the US fell short of some Wall Street expectations, and a number of analysts have begun to predict similiar trading patterns in Europs.

In the UK, concern abont competitive pressure in the all-important Christmas selling seasoo has been increasing, and yesterday sentiment took a further hit from rumours of a rights issue.

Engineering leader Rolls-Royce, a weak market lately having come off by a fifth over the past month, revived yesterday following news of a £1.2bn order from Singapore Airlines for Rolls-Royce'a Treot 800 engines. The shares raced to the top of the Footsie performance charts in the heaviest volume for more than four years. They closed 11½ higher at 172½p after turnover of 26m.

According to analysts, tho ordor restores Rolls-Royco's credibility as a front rank supplier of aero engines after a period in which tho gronp appeared to be in grave danger of losing market share to US competition.

News of the order coincides with recent buy notes from NatWest Securities, Merrill Lynch and Henderson Crosthwaite, all of which have promoted the shares as a major recovery stock.

The Singapore Airlines contract also gave a boost to equipment supplier Smiths Industries, 12 higher at 594p.

Banking stocks gained further ground as several brokers recommended the sector on the basis of relativo value and takeover potential.

National Westminster was near the top of the laddor, helped by UBS, which turned buyer of the stock and argued that the cash from the widely expected anticipated sale of its Bancorp arm would be wisely spent.

UBS believes that upwards of $4bo will be raised and thet cash will boost the bank'a Tier One capital ratio to 8.8 per cent. It said the cash will probably be used to buy a mutual lifo and pension group, and a small fund manager. And it believes that if there is anything left over the bank will not be averse to buying back some of its shares.

Elsewhore, NatWest Securities issued a positive Europe-wide sector review and Credit Lyonnais Laing reiterated its argument that technology offered huge cost savings and NatWest would be one of the main beneficiaries. NatWest shares rose 12 to 665p.

Hotels and restaurants group Forte was boosted by a recommendation from Lehman Brothers. The shares hardened 5 to 243p in trade of 3.6m. Analyst Mr Fraser Ramzam, who has just been on a US hotels visit, said: "There is a growing interest in owning hotel assets in the US rather than being a pure manager or franchiser. Since Forte owns or leases 85 per cent of its botels base, it is in a position to benefit from rising asset values."

In the rest of tha sector, there was further selling of Ladbroke, which issued a profits warning last week. The shares slipped 2 to 123p. Volume of 17m included blocks of 9m and 4.7m traded at 117p, well below the market price.

Turnover in retailor Sears rose to 10m as the shares lost 3 to 101p after SBC Warburg trimmed its profits estimates for the group. The broker cut its forecast by £8m to £124m and blamed "difficult trading conditions" for its move.

In food retailers and wholesalers, Geest was the main talking point after the stock lost 23 per cent of its value following a profits warning. It closed 32 lower at 107p.

Analysts said profits this year are now likely to be negligible, against previous expectations of around £14.5m. However, one specialist suggested the shares are unlikely to fall much further as they "are on a yield of around 9.5 per cent".

Oil majora performod strongly, as Robert Fleming Securities issued research which argued that crude oil prices would be around $17 a barrel next year, higher than the consensus forecast.

Analysts also believed problems in Nigeria and the Middle East could squeezo crude prices higher. BP rose 8¼ to 488½p and Shell Transport 6¼ to 745½p.

Disappointing figures from General Accident, the composite insurer, augured badly for Commercial Union, which ends tho sector's third quarter reporting season today.

GenAcc announced lower than expected nine-month profits of £346.6m and the shares fell 7 to 629p. The figures were in lino with a trend first reflected by results from Royal Insurance last week. CU, which is expected to come in with profits between £370m and £385m prior to a £12m exceptional charge, slid 8 to 598p.

Cortecs International, tho pharmacouticals research group, jumped 29 to 160p. The company announced results of two clinical trials and a US distribution agreement for its leading diagnostic product.

P&O steamed ahead as a positive note from NatWest Securities fuelled buying by the yield-hungry incomo funds. Continued talk of a big property disposal also rekindled interest and the shares rose 16 to 494p in 2m traded.

News that UAL had pulled ont of takeover talks with USAir left British Airways 3¼ lower at 462¾p. There was concern that American Airlines may also abandon its planned link with USAir, which is 24.6 per cent owned by BA.

Electronic systems group Cobham jumped almost 8 per cent following news of an acquisition and share placing. Analysts saw the takeover as a significant deal, broadening Cobham's business base and onhancing earnings. Tho shares closed 31 up at 432p.

Another fast mover was On Demand Information, an Unlisted Securities Market stock, which rose 35 per cent to 104p – up 27 – following a distribution deal with telecoms giant BT.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Nov 14	Nov 13	Nov 10	Nov 9	Nov 8	Yr ago	*High	*Low
Ordinary Share	2604.2	2588.3	2576.3	2591.0	2586.6	2408.4	2668.5	2238.3
Ord. div. yield	4.11	4.13	4.15	4.10	4.10	4.29	4.73	4.02
P/E ratio net	15.69	15.62	15.58	16.62	15.61	18.56	21.99	15.35
P/E ratio nil	15.50	15.43	15.37	16.44	15.42	18.11	22.21	15.17

*For 1995. Ordinary Share Index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share Index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2593.6	2595.2	2597.2	2597.9	2598.3	2600.2	2599.3	2598.1	2599.3	2604.5	2588.7

	Nov 14	Nov 13	Nov 10	Nov 9	Nov 8	Yr ago
SEAQ bargains	28,425	29,572	27,258	29,461	27,349	30,763
Equity turnover (£m)†	-	1149.1	1379.9	1977.9	1711.5	2629.1
Equity bargains†	-	35,036	33,609	35,748	33,268	34,603
Shares traded (mil)†	-	603.7	612.5	852.0	638.7	805.4

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	626	Total Highs	95	Total contracts	43,990
Total Falls	575	Total Lows	43	Calls	19,287
Same	1,676			Puts	24,703

Nov. 14 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3546.0	3554.0	+11.0	3567.0	3540.0	8533	64026
Mar	3578.0	3577.5	+11.5	3578.0	3578.0	4	6351
Jun		3584.0	+11.0			0	134

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3910.0	3910.0	-	3910.0	3900.0	310	3537
Mar	3943.0	3953.0	+10.0	3943.0	3943.0	300	0

■ FT-SE 100 INDEX OPTION (LIFFE) (*3546) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-
-	F.P.	32.2	93	92	Abtrust Asian Smlr	92	
-	F.P.	2.27	38	32	Do Warrants	32½	
-	F.P.	12.3	22	17	†Alpha Omikron	22	+1
-	F.P.	2.13	10	9	†Arion Props	9	
308	F.P.	47.8	293	285	B2W Eq Tesco Wt	293	+2
100	F.P.	8.23	95	95	Baronsmead VCT	95	
-	F.P.	60.8	102	101	Benfield & Rea	101	
-	F.P.	5.40	52	50	†Chartwell Intl	50	
-	F.P.	44.5	139	102	†Grace Intl	124	-13
80	F.P.	3.79	71	65	†David Glass	70	
145	F.P.	59.1	152	146	Enterprise Inns	146	-4
-	F.P.	91.0	95	90	Guinness Flight	91	+1
-	F.P.	181.0	195	181	Do Units	181	
-	F.P.	2.00	13	10	Do Warrants	10	
125	F.P.	27.4	153	128	Heritage Bath	153	
-	F.P.	11.2	119	112	†Indpt Radio	112	-2
-	F.P.	21.5	543	488	†Intl Greetings	513	
45	F.P.	18.2	63	52	†MultiMedia	63	+1
-	F.P.	14.1	101	97	Northern Venture	97	
100	F.P.	24.8	102	99	Perpetual UK Smlr	99	

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 13	% chg on day	Nov 10	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1900.79	-1.0	1920.47	2081.46	1.89	-	2201.96	1697.91
■ Regional Indices								
Africa (16)	2624.08	0.0	2624.55	3389.12	3.89	22.73	3389.12	2272.74
Australasia (6)	2339.32	+2.1	2290.27	2558.97	2.10	26.49	2591.08	1786.20
North America (12)	1650.91	-2.2	1687.18	1618.26	0.82	46.53	2131.00	1348.18

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FT - SE Actuaries Share Indices — The UK Series

	Nov 14	Day's chge%	Nov 13	Nov 10	Nov 9	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3547.9	+0.3	3538.8	3523.4	3541.5	3135.4	4.02	2.07	15.04	134.7	1409.34
FT-SE Mid 250	3905.3	+0.2	3897.3	3902.9	3908.2	3580.7	3.51	1.82	19.52	132.3	1525.75
FT-SE Mid 250 ex Inv Trusts	3927.7	+0.2	3918.6	3925.1	3929.1	3583.2	3.64	1.88	18.22	136.9	1534.88
FT-SE-A 350	1764.3	+0.3	1759.2	1754.5	1762.1	1570.2	3.91	2.02	15.84	63.2	1433.04
FT-SE-A 350 Higher Yield	1755.3	+0.3	1750.7	1747.1	1759.3	1574.8	4.97	1.81	13.82	79.6	1162.52
FT-SE-A 350 Lower Yield	1778.1	+0.3	1772.5	1766.6	1769.6	1525.3	2.83	2.39	18.43	47.1	1206.38
FT-SE SmallCap	1938.52	----	1937.14	1933.65	1935.66	1781.31	3.37	1.67	22.24	56.8	1580.83
FT-SE SmallCap ex Inv Trusts	1922.64	-0.1	1923.74	1919.75	1920.61	1749.45	3.60	1.74	18.94	58.6	1558.04
FT-SE-A ALL-SHARE	1741.55	+0.3	1736.92	1732.39	1739.53	1553.80	3.87	2.00	16.18	62.4	1437.65

■ FT-SE Actuaries All-Share

	Nov 14	Day's chge%	Nov 13	Nov 10	Nov 9	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	2952.91	+0.8	2926.52	2906.41	2922.01	2722.00	3.97	2.02	15.61	116.7	1242.59
12 Extractive Industries(7)	4120.75	-1.0	4163.24	4126.49	4164.59	3672.78	3.59	2.51	13.87	143.7	1181.51
15 Oil, Integrated(3)	2952.19	+1.3	2913.06	2895.26	2906.73	2692.21	4.17	1.86	15.88	123.9	1273.52
16 Oil Exploration & Prod(13)	1896.82	+0.8	1881.24	1880.22	1882.78	1872.88	2.65	1.49	31.75	49.8	1125.71
20 GEN INDUSTRIALS(277)	1845.58	+0.3	1840.08	1832.78	1835.11	1896.23	4.27	1.83	15.97	72.8	1039.56
21 Building & Construction(38)	960.51	+0.3	957.68	920.09	914.75	1051.61	4.25	1.94	15.20	38.1	789.69
22 Building Matls & Merchs(31)	1889.13	+0.1	1887.83	1676.93	1664.38	1865.29	4.39	2.06	13.82	67.0	840.15
23 Chemicals(23)	2365.54	----	2365.34	2372.27	2391.26	2329.08	4.14	1.89	15.98	80.6	1094.80
24 Diversified Industrials(20)	1776.26	+0.4	1768.25	1759.54	1756.43	1811.57	5.59	1.56	14.32	97.2	964.66
25 Electronic & Elect Equip(36)	2129.57	+0.2	2125.31	2127.63	2129.34	1899.98	3.52	1.98	17.95	61.7	1065.29
26 Engineering(66)	2143.68	+0.8	2127.10	2123.21	2121.32	1824.19	3.50	1.95	18.31	64.8	1277.59
27 Engineering, Vehicles(13)	2555.26	+0.3	2548.88	2546.02	2562.40	2322.94	3.67	1.17	29.21	93.5	1301.84
28 Paper, Pckg & Printing(27)	2773.14	+0.8	2790.79	2806.26	2819.46	2848.22	3.60	2.48	13.96	88.5	1132.32
29 Textiles & Apparel(21)	1460.32	+1.0	1446.65	1454.09	1448.78	1571.92	4.93	1.79	14.17	66.8	872.72
30 CONSUMER GOODS(89)	3482.46	+0.2	3454.07	3438.19	3453.90	2789.10	3.88	1.79	17.95	120.7	1251.30
31 Breweries(17)	2684.63	+0.4	2673.17	2664.41	2672.55	2227.78	3.75	1.95	17.09	88.42	1258.47
32 Spirits, Wines & Ciders(9)	2831.33	+0.8	2815.18	2807.28	2832.79	2864.82	4.23	1.83	18.14	107.1	995.61
33 Food Producers(24)	2476.06	+0.4	2465.72	2454.54	2455.42	2296.97	4.05	1.96	16.64	85.48	1091.28
34 Household Goods(11)	2616.87	+0.4	2606.35	2505.47	2525.87	2360.50	3.80	2.20	14.93	90.95	944.99
36 Health Care(17)	1929.44	+0.2	1925.21	1920.55	1926.27	1589.43	2.70	1.81	25.54	48.10	1157.27
37 Pharmaceuticals(10)	4797.57	+0.1	4793.78	4782.88	4767.15	3118.30	3.44	1.70	21.35	153.87	1589.84
38 Tobacco(1)	4523.45	-0.2	4531.92	4514.88	4603.92	3842.20	5.30	1.94	12.14	229.23	1094.36
40 SERVICES(226)	2146.57	+0.3	2142.53	2136.93	2141.02	1931.46	3.13	2.05	19.45	64.10	1099.17
41 Distributors(30)	2621.07	----	2620.21	2614.26	2619.51	2517.84	3.82	1.78	18.42	90.79	949.92
42 Leisure & Hotels(29)	2421.20	----	2421.59	2410.72	2436.85	2079.70	3.31	1.84	20.49	73.67	1240.21
43 Media(43)	3430.77	+0.2	3424.80	3434.02	3437.47	2888.61	2.12	2.40	24.55	78.06	1226.62
44 Retailers, Food(16)	1937.40	+0.5	1928.36	1912.33	1919.28	1782.16	3.74	2.40	13.91	86.22	1208.65
45 Retailers, General(44)	1810.42	+0.3	1804.25	1794.74	1777.29	1632.89	3.27	2.12	18.06	57.66	1019.52
48 Support Services(37)	1835.95	----	1835.25	1838.33	1838.13	1531.11	2.51	2.48	20.05	41.58	1153.44
49 Transport(20)	2188.95	+0.7	2173.74	2190.20	2212.92	2276.55	3.98	1.30	24.11	80.09	896.75
51 Other Services & Business(7)	1157.06	+0.6	1150.02	1146.80	1157.88	1260.58	4.47	1.40	19.90	43.10	1040.11
60 UTILITIES(35)	2490.40	-0.2	2495.98	2516.78	2529.57	2446.14	4.67	1.98	13.51	104.48	1021.03
62 Electricity(13)	2858.11	-0.5	2873.50	2916.05	2906.73	2580.75	4.00	2.84	11.02	143.97	1283.96
64 Gas Distribution(2)	1626.88	+2.8	1582.09	1581.35	1573.23	2011.95	7.37	0.65	26.17	119.82	816.25
66 Telecommunications(7)	2031.08	-0.7	2045.34	2056.02	2085.30	2045.31	4.11	1.74	17.52	51.48	903.38
68 Water(13)	2064.37	-0.3	2070.50	2091.82	2104.17	1858.81	5.62	2.69	8.26	98.42	1109.30
69 NON-FINANCIALS(650)	1844.47	+0.3	1839.63	1836.26	1841.67	1675.48	3.91	1.92	16.69	66.15	1368.12
70 FINANCIALS(113)	2755.95	+0.3	2747.65	2729.57	2754.74	2230.05	4.04	2.45	12.64	104.26	1151.00
71 Banks, Retail(9)	3901.67	+0.8	3872.55	3830.02	3853.81	2876.06	3.78	2.81	11.91	140.81	1230.59
72 Banks, Merchant(6)	3534.68	+0.8	3507.30	3534.62	3577.74	2771.73	2.69	2.74	17.38	96.34	1105.42
73 Insurance(25)	1345.66	-0.8	1356.37	1346.35	1376.07	1244.21	5.46	2.97	8.55	72.25	965.30
74 Life Assurance(6)	3213.45	-0.9	3243.55	3258.99	3313.41	2418.89	4.34	1.53	18.77	136.72	1309.16
77 Other Financial(22)	2384.54	+0.1	2381.71	2388.25	2404.85	1860.31	3.74	1.93	17.30	65.66	1530.28
79 Property(45)	1369.48	+0.2	1367.41	1366.43	1372.58	1445.39	4.52	1.34	20.64	47.39	821.31
80 INVESTMENT TRUSTS(133)	2909.51	+0.2	2904.66	2904.02	2918.82	2748.48	2.30	1.05	51.32	56.55	1003.40
89 FT-SE-A ALL-SHARE(896)	1741.55	+0.3	1736.92	1732.39	1739.53	1553.80	3.87	2.00	16.18	62.04	1437.65
FT-SE-A Fledgling	1089.24	+0.2	1087.17	1086.06	1088.51	-	2.81	1.28	34.73	29.96	1121.85
FT-SE-A Fledgling ex Inv Trusts	1091.95	+0.2	1089.67	1088.15	1084.87	--	2.94	1.34	31.77	28.84	1123.64

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3542.6	3540.1	3542.9	3544.6	3543.5	3548.5	3548.1	3546.1	3545.8	3549.2	3534.8
FT-SE Mid 250	3897.3	3896.9	3898.7	3900.4	3901.3	3902.1	3903.1	3902.7	3904.8	3905.3	3896.3
FT-SE-A 350	1761.4	1760.4	1761.7	1762.5	1762.2	1764.2	1764.1	1763.3	1763.4	1764.5	1759.3

Time of FT-SE 100 Day's High: 1.15pm Day's low: 8.42am. FT-SE 100 1995 High: 3586.0 (16/10) Low: 2954.2 (23/1).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	952.1	949.5	946.0	948.6	948.5	948.7	948.7	949.6	949.8	953.7	948.4	+5.3
Pharmaceuticls	4742.6	4726.8	4737.0	4744.0	4739.8	4742.5	4759.3	4755.9	4741.1	4743.5	4740.2	+3.3
Water	2069.7	2065.7	2069.9	2068.3	2063.4	2063.7	2063.7	2063.2	2060.8	2059.4	2065.7	-6.3
Banks, Retail	3957.3	3956.4	3947.9	3953.5	3949.3	3961.2	3960.9	3952.4	3945.9	3951.5	3922.0	+29.5

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL. The FT "500" has been renamed FT-SE-A Non-Financials Index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1995. © The Financial Times Limited 1995. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. DELETION: [illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

CONTRACTS & TENDERS

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 14 / Sch)

BELGIUM/LUXEMBOURG (Nov 14 / Frs.)

CZECH REP (Nov 14 / Koruna)

DENMARK (Nov 14 / Kr)

FINLAND (Nov 14 / Mka)

FRANCE (Nov 14 / Frs.)

GERMANY (Nov 14 / Dm.)

GREECE (Nov 14 / Drachma)

ITALY (Nov 14 / Lire)

NETHERLANDS (Nov 14 / Fls.)

NORWAY (Nov 14 / Kroner)

POLAND (Nov 14 / Zloty)

PORTUGAL (Nov 14 / Escudo)

SPAIN (Nov 14 / Pts.)

SWEDEN (Nov 14 / Kronor)

SWITZERLAND (Nov 14 / Frs.)

TURKEY (Nov 14 / TL Lira)

PACIFIC

JAPAN (Nov 14 / Yen)

HONG KONG (Nov 14 / H.K.$)

INDONESIA (Nov 14 / Rupiah)

MALAYSIA (Nov 14 / MYR)

NEW ZEALAND (Nov 14 / NZ $)

SINGAPORE (Nov 14 / S$)

SOUTH KOREA (Nov 14 / Won)

TAIWAN (Nov 14 / TW $)

THAILAND (Nov 14 / Baht)

AUSTRALIA (Nov 14 / Aus$)

MONTREAL (Nov 14 / Can $)
3:30 pm

AFRICA

SOUTH AFRICA (Nov 14 / Rand)

INDICES

US INDICES

Dow Jones	Nov 13	Nov 10	Nov 9	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4872.80	4870.37	4864.23	4872.80 (13/11)	3832.08 (30/1)	4872.80 (13/11/95)	41.22 (2/7/32)
Home Bonds	103.97	103.97	103.91	104.04 (16/10)	93.63 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1985.45	2005.40	2000.13	2010.45 (6/11)	1473.18 (3/1)	2010.45 (6/11/95)	12.32 (8/7/32)
Utilities	213.58	214.07	215.58	[illegible] (25/10)	183.83 (3/1)	256.46 (31/5/93)	10.50 (8/4/32)

DJ Ind. Day's high 4902.75 (4886.02) Low 4821.23 (4820.51) (Theoretical) Day's high 4896.63 (4873.62) Low 4847.81 (4840.38) (Actual)

Standard and Poors

	Nov 13	Nov 10	Nov 9	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	582.30	592.72	593.26	593.26 (8/11)	459.11 (3/1)	593.26 (8/11/95)	4.40 (1/6/32)
Industrials♥	696.93	696.65	688.76	696.93 (13/11)	545.20 (3/1)	696.93 (13/11/95)	3.62 (21/6/32)
Financial	59.50	59.94	60.14	61.39 (18/10)	41.84 (3/1)	61.39 (18/10/95)	8.64 (1/10/74)
NYSE Comp.	315.63	315.78	315.97	315.97 (8/11)	250.73 (3/1)	315.97 (8/11/95)	4.46 (25/4/42)
Amex Mkt Val	530.43	531.00	530.81	553.88 (12/9)	433.12 (3/1)	553.88 (12/9/95)	29.31 (9/12/72)
NASDAQ Comp	1058.45	1063.87	1065.58	1067.40 (13/9)	743.58 (3/1)	1067.40 (13/9/95)	54.87 (31/10/72)

■ RATIOS

	Nov 10	Nov 3	Oct 27	Year ago
Dow Jones Ind. Div. Yield	2.39	2.41	2.46	2.78
	Nov 8	Nov 1	Oct 25	Year ago
S & P Ind. Div. yield	2.04	2.07	2.08	2.99
S & P Ind. P/E ratio	18.23	17.99	17.95	20.93

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Iomart	8,478,900	5¾	+¼
Telefonos	7,791,000	25⅞	–⅜
US West Com	3,636,000	29⅝	+⅛
Micron	3,587,200	61¼	–2¾
Westngh. E	3,362,400	15½	+¼
Pharm Upjohn	2,991,200	33⅝	+⅛
US West Med	2,686,500	77⅝	–⅛
IBM	2,374,300	97¼	—
Novr Inds	2,131,000	77	–¼
Br Steel	2,037,400	24⅝	—

■ TRADING ACTIVITY

● Volume (million)

	Nov 13	Nov 10	Nov 9
New York SE	282.382	297.953	379.015
Amex	14.861	18.279	17.016
NASDAQ	484.218	484.218	490.593
NYSE			
Issues Traded	3,046	3,049	3,063
Rises	1,022	960	1,198
Falls	1,234	1,232	1,058
Unchanged	790	857	837
New Highs	113	106	137
New Lows	48	40	40

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	593.90	593.15	–0.75	594.70	592.00	54,004	198,560
Mar	598.10	598.05	–0.80	598.30	597.00	497	14,089

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	17920.0	17870.0	+120.0	17930.0	17790.0	11,886	154,281
Mar	17930.0	17880.0	+110.0	17950.0	17840.0	1,106	11,406

Open interest figures for previous day.

■ INDEX FUTURES

■ CAC-40

■ DAX

■ OMX

■ SOFFEX

NORTH AMERICA

CANADA

TORONTO (Nov 14 / Can $)
3:30 pm

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). [illegible]

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, November 14, 1995

	Stocks Traded	Closing Prices	Change on day
Kitagawa Iron Wks	14.1m	915	-53
Mitsui Mng & Sm	12.0m	407	+37
Taito	11.4m	1,080	+109
Toho Zinc Co	7.9m	654	-29
Nissho Iwai	5.3m	465	+11
Sumitomo Mtl Ind	4.6m	297	+3
Old Elect Ind	4.5m	905	-3
Lion	4.1m	586	+28
Toshiba Tungaloy	4.0m	707	+42
Topcon Corp	3.9m	1,510	+140

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

3:30 pm November 14

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
28⅛	20½	Scana Corp	1.44	5.5	16	395	26⅛	26	26	-⅛
18	14½	Scecrp	1.00	5.9	10	6446	17⅛	16¾	17	+⅛
11¼	6⅛	SchawkA	0.26	4.1	16	22	6½	6¼	6⅜	-⅛
50¼	37¼	SchererRP			22	701	42¼	41⅞	41⅝	-⅛
55⅝	35½	SchrPl x	1.16	2.1	20	3041	55⅜	54⅝	55	+¼
69⅝	00⅜	Schlmb	1.80	2.4	23	5487	63⅜	62⅞	62⅞	+½
29	11¼	Schwab(C)	0.16	0.7	25	2614	24¼	23½	23½	-1
24⅞	11⅜	SciAtl	0.60	0.4	30	3567	15	14⅜	14½	-¼
20	18⅛	Scotmen	0.10	0.6	10	59	18½	18¼	18¼	-⅛
55⅛	33½	ScottP	0.40	0.7	15	3250	54	53½	53½	-⅜
36⅞	26⅞	Scripps	0.52	1.4	20	580	31⅞	31⅛	31⅜	-⅜
21½	13½	ScuddrNAsF	0.02	0.1		212	13⅝	d13½	13½	
11⅞	8⅝	ScuddrNEsF x	0.16	1.5		149	10⅝	10½	10½	
28	13⅞	SeaCnB	0.70	3.9	1	39	18⅛	17½	18	
16¼	14⅞	SeaCt.4625	1.46	9.3		2	15¾	15¾	15¾	
52⅞	23⅝	S'gate			10	5753	50¼	49⅞	49⅞	-1
38⅛	25⅝	Seagrm	0.60	1.6	25	2168	37¼	36¾	36⅞	-⅛
22½	15¼	Seagull En			62	2679	19	18¾	18¾	-⅛
28⅝	18	Sealed Air			25	1630	u29¼	28⅞	29¼	+¾
38⅞	30⅜	SearsR	0.92	2.4	0	6585	38⅞	38⅜	38⅝	-⅜
19¼	16⅞	SecCapStI x	1.15	6.3	27	198	18⅞	18	18⅞	+⅛
12⅞	10⅞	Seligm Sel	0.84	6.9		37	12¼	12⅛	12¼	
38¼	20	Sensormt x	0.22	1.0	20	3727	22⅞	21⅝	22¼	+⅛
37¾	21⅞	SequaA	0.60	2.4	7	82	35	24¼	25	+⅛
35⅛	23	SequaB	0.50	1.6	16	z100	31¾	21¾	31¾	
41½	26¼	ServCp	0.44	1.0	24	4485	u43¼	41⅞	42	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22⅞	19½	Yankee Egy	1.20	5.8	13	23	21¾	21⅝	21⅝	-⅛
48½	34⅛	York Int	0.24	0.5	17	554	45¾	45⅝	45⅝	-⅛
4½	2½	Zapata	0.14	3.5	0	71	4	3⅞	4	+⅛
12⅞	6⅞	ZnithEl			5	916	9¼	8	8¾	+¼
24⅝	19⅜	Zenith Nat	1.00	4.5	31	65	22⅛	22	22	
8⅞	6⅛	Zenix Inc	0.72	11.1		224	6⅞	6½	6½	
16⅞	12⅝	Zero x	0.44	2.9	15	7	15⅛	15⅛	15⅛	
26	16⅞	Zurn Ind	0.40	1.6	22	287	25⅛	24⅞	25	+⅛
11½	10¼	Zweig Fund	1.12	10.2		447	11⅛	11	11	
0	7⅞	Zweig Totl x	0.84	9.7		82	8⅝	8½	8⅝	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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NASDAQ NATIONAL MARKET

3:30 pm November 14

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX COMPOSITE PRICES

3:30 pm November 14

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICA

3M gains 7% on restructure programme

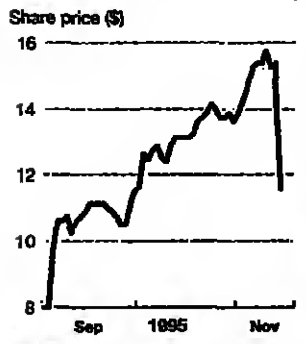
Wall Street

US shares were mixed in early trading as investors watched the continuing battle over a deficit-cutting budget package in Washington, *writes Liso Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 11.92 higher at 4,884.82 while the Standard & Poor's 500 slipped 0.67 to 591.63 and the American Stock Exchange composite lost 0.94 at 529.49. NYSE volume was 197m shares.

Much of the Dow's move was related to news of a restructuring plan at Minnesota Mining & Manufacturing. Among other things, the company said that it would spin off its data storage and imaging systems units and stop making video and audio tape. That sent the shares up $4⅛ or 7 per cent to $63⅓ in early trading.

USAir



Source: FT Extel

Attention was focused on Washington where President Bill Clinton shut down non-essential government services after he and Congress failed to agree on a budget package. Many on Wall Street believe that the Federal Reserve's Open Market Committee will cut interest rates if the government can pass a credible deficit reduction plan, but few held out hope that the FOMC would act at today's meeting.

Those views were supported by yesterday's weaker than expected figures on October retail sales. Mr Julian Jessop of HSBC Markets Research said that the figures put the market on course for a rate cut in December if a budget package had been agreed.

Apple Computer, however, rose $1¾ to $42¼ amid continuing speculation that another high-tech company might purchase the computer maker.

USAir shed $3¼ or 23 per cent to $11⅞ after UAL, the parent of United Airlines, announced late on Monday that it would not make a bid to purchase its smaller rival. USAir had jumped $2⅝ since the beginning of October when it announced it was holding discussions with potential buyers. UAL added $4½ at $187¼.

Technology shares were mostly lower in early trading, with the Nasdaq composite down 7.04 at 1,051.42 and the Pacific Stock Exchange technology index 1 per cent off. Microsoft surrendered $$\frac{15}{16}$$ to $95¾. Intel was $1 cheaper at $66⅛ and Cisco Systems dropped $3 to $82⅞.

Canada

Toronto was flat in midday trade as hopes rose that the US budget dispute would be resolved swiftly. The TSE 300 Composite index was 1.18 easier by noon at 4,591.54 in weak volume of 24.4m shares.

WIC Western International Communication picked up C$¼ to C$25¼ as the company said that it would make no comment on a C$24 a share bid by CanWest Global Communications until it received a formal written offer. CanWest was C$1¼ higher at C$24.

Cogeco Cable relinquished C$⅝ at C$8¼ as it pondered making a bid for CFCF, the television company.

Mexico up on budget

Mexico City was slightly higher in late morning trading as investors digested the implications of the budget. The IPC index rallied 12.86 to 2,266.93.

Mr Guillermo Ortiz, the finance minister, reaffirmed a target of at least 3 per cent growth for 1996, and inflation for the 1996 calendar year of 20.5 per cent. He also said the country would keep a floating exchange rate for the peso.

SAO PAULO opened higher on a technical rebound from Monday's 4 per cent fall, before moving down once more. By midsession the Bovespa index was 208.38 lower at 37,662.

Dealers said nervousness over a liquidity crisis in the local banking sector and unfavourable news from the US, Mexico and Argentina was a sign that prices still had plenty of room to fall.

BUENOS AIRES was little changed in thin dealings, and at midday the Merval index was off 1.16 at 393.73. The biggest losses were by real estate developer Irsa, which fell 2.0 per cent, car maker Sevel, down 1.6 per cent, and gas distributor Transportadora de Gas del Sur, 1.5 per cent cheaper. The only rise was by car maker Ciadea, up 1.6 per cent.

S African golds retreat

Gold shares shed a substantial portion of recent gains after a fall in the bullion price brought renewed negative market sentiment.

Platinum issues followed golds lower in spite of a Johnson Matthey platinum interim review for 1995 which forecast record demand for the white metal.

Demand for industrials was healthier and was seen ticking up for the next day or so. Brokers said they expected that investor anticipation that GDP figures for the third quarter, due out today, will be encouraging had fuelled the buying.

The overall index receded 19.0 to 6,008.3. Industrials gained 17.3 at 7,635.2 and the golds index shed 69.5 to 1,358.

Near-term equity futures also drifted, with golds tracking the retreat in the metal price and industrials making gains on improved sentiment.

Mining financials suffered, Anglos falling R3.50 to R221 and De Beers off 50 cents at R106.50. Among platinum producers, Implats lost R1 at R82 and Rusplats R1.50 at R71.

EUROPE

Pechiney drops 14.6% as sell-off terms unveiled

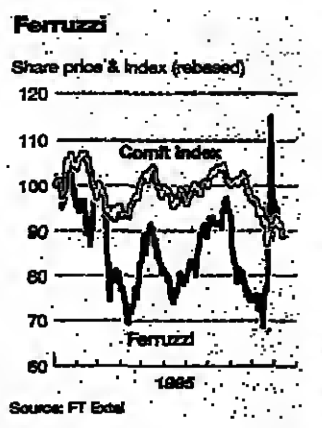
Pechiney was sold heavily in PARIS after the government announced terms of the privatisation and set a capital increase of up to FFr4bn. The CIs were suspended limit down at the start of trading, reopened and lost even more, before closing off FFr37.20 or 14.6 per cent at FFr217.80. The state has set a range of FFr187 to FFr215 for the institutional tranche. Pechiney International, 67 per cent owned by Pechiney, receded FFr5.00 to FFr105.50.

Saint-Louis was another heavy loser as Arjo Wiggins, of the UK, in which it holds a 40 per cent stake, forecast a disappointing 1995. The French group tumbled 6.2 per cent or FFr90 to FFr1,350.

The CAC-40 index, in contrast, was moribund as most investors awaited today's presentation by the government of its programme to reduce the social security budget. The index eased 0.03 to 1,838.21 in turnover of FFr3.5bn.

Mr Stuart Thomson, Nikko Europe's international economist, said the success of the government's aim to reduce the deficit would "depend crucially on the performance of the dollar against the D-Mark". He believed that the dollar would remain firm for the rest of the year, allowing for a modest reduction in short-term rates. "However, the dollar four-year bear trend is expected to resume during the fourth quarter," he said.

Ferruzzi



Source: FT Extel

MILAN finished weaker as a tentative early rally ran out of steam. The Comit index was 1.00 higher at 587.2, while the real-time Mibtel index lost 68 to 9,006, with some investors said to be making room in their portfolios for new shares of the energy company ENI.

Ferruzzi climbed to an early L1,189 on renewed speculation that Istituto Mobiliare Italiano, Istituto Bancario San Paolo di Torino and a group of industrial investors might launch a counter-bid for the company. However, the shares subsequently fell back to finish just L8 higher at L1,129 as the rumours ran out of steam.

ZURICH was higher, but off its best levels after the dollar eased in late trade, and the SMI index finished 11.6 ahead at 3,133.0.

J.P. Morgan, which has adopted a more bullish view of long term Swiss interest rates, said it expected that the current portfolio flows from German investors into Swiss franc assets would continue. Accordingly, it believed that the equity market had further upside and had moved its long term weighting from underweight up to neutral. Morgan also raised its December 1996 target for the SMI from 3,200 to 3,400.

Nestlé picked up SFr10 to SFr1,196 in what was seen as a correction after the recent downturn. SMH, the watchmaker, fell a sharp SFr26 to SFr678 as seasonal worries emerged about Christmas sales.

FRANKFURT was steady in quiet trading, supported by the dollar and bonds. The DAX index made 22.01 to 2,197.29, after trading within a range of 2,186.00 to 2,197.35, while the Ibis indicator settled at 2,197.34. Turnover was around DM7bn.

FT-SE Actuaries Share Indices

Nov 14 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1415.04	1415.46	1415.12	1415.82	1417.54	1416.84	1414.87	1414.40
FT-SE Eurotrack 200	1524.27	1524.99	1524.75	1525.34	1526.53	1525.64	1524.73	1524.10

	Nov 13	Nov 10	Nov 9	Nov 8	Nov 7
FT-SE Eurotrack 100	1411.35	1410.17	1421.30	1416.79	1414.02
FT-SE Eurotrack 200	1521.90	1522.31	1533.52	1528.56	1524.01

Base 1000 (26/10/90) High/day: 100 - 1418.51; 200 - 1527.73 Low/day: 100 - 1414.02 200 - 1522.47 † Partial

Daimler's nine-month figures pleased many market participants as the industrial group said it expected 1995 sales to be significantly higher than in 1994. The company's sales showed small increases at all units apart from its aerospace division. The shares moved up DM9.20 to DM695, and then retreated slightly to DM693.50 in the Ibis. Volkswagen fell DM4.30 to DM464.30 and BMW lost DM2 to DM782.50.

Among the banks, Deutsche Bank was DM0.23 firmer at DM65.44, Dresdner Bank finished unchanged at DM38.50, Commerzbank softened DM0.20 to DM322.7 and Allianz moved forward DM49 to DM2,714.

Siemens, which was reported to have signed a joint venture agreement in China, put on DM3.30 at DM739.

HELSINKI ended lower on renewed worries about the impact of a downturn in forestry product prices, as well as institutional sales of Nokia ahead of Ericsson's nine-month' results, due out in neighbouring Sweden today.

The HEX index fell 52.31 or 2.7 per cent to 1,866.15 in turnover of FM232.4m. Nokia A dropped FM13 to FM232. The forestry sector lost 4.3 per cent, with Repola declining FM3 to FM77 and Kymmene B shedding FM4 to FM108.

STOCKHOLM was hit by falls in forestry stocks and Ericsson. The general index dipped 9.28 to 1,660.33.

Forestry shares fell by an average 2.2 per cent, following Helsinki's lead. MoDo B shed SKr10.50 to SKr308, Stora A SKr3 to SKr79 and SCA A SKr1 to SKr112.50.

Ericsson B slipped SKr3 to SKr140 ahead of today's results. Investor B lost SKr4.50 at SKr218 following disappointing results from Saab on Monday and a weaker sales outlook for its Scania unit.

AMSTERDAM made a forward movement amid little corporate news. The AEX index was ahead 1.41 at 458.82 after reaching a high of 459.88.

Philips went against the trend, falling Fl 1.50 to Fl 59.70, with dealers seeing US selling pressure. Financials were sought out as Fortis Amev gained Fl 2.20 at Fl 102 and Aegon Fl 1 at Fl 62.80.

MADRID firmed in line with the bond market, the general index picking up 2.34 to 299.35 as a more positive mood emerged.

Banco Exterior surged Pta400 or 14.1 per cent to Pta3,230 after trading resumed from a suspension on Monday in response to Argentaria's bid of Pta3,300 a share for the remaining 26 per cent of the company's equity that it did not already own.

Written and edited by Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei firmer in spite of worries over banks' loans

Tokyo

The outlook for the banking industry was at the centre of attention ahead of an announcement from the Finance Ministry on banks' bad loans at the end of September, but the Nikkei index closed marginally higher, *writes Emiko Terazono in Tokyo.*

The 225-issue average closed 13.05 up at 17,802.51 after moving between 17,766.04 and 17,888.70. A rise in the dollar supported confidence, as did a bout of arbitrage buying, but many investors remained inactive as brokers took profits on speculative stocks and foreigners sold high-technology shares.

Volume remained flat, at 303m shares. The Topix index of all first section stocks inched up 0.02 to 1,420.77 and the Nikkei 300 firmed 0.03 to 265.96. Declines led rises by 516 to 430, with 227 issues unchanged. In London the ISE/Nikkei 50 index eased 0.23 to 1,206.55.

Trading was largely quiet ahead of news that banks' problem loans amounted to Y37,390bn at end-September.

Nippon Credit Bank, the long-term credit bank, put on Y2 at Y398 in spite of a rise in the yields of its debentures on the secondary market, against debentures issued by Industrial Bank of Japan. IBJ fell Y30 to Y2,830.

Profit-taking depressed speculative stocks. Kitagawa Iron Works dropped Y53 to Y915 and Toho Zinc lost Y29 to Y654. Mitsui Mining and Smelting, however, rose Y37 to Y407 on buying by individual investors and brokers, moving above Y400 for the first time in 10 months.

NKK gained Y2 at Y259 on reports that it would post higher than expected earnings for the business year to March.

High-technology issues fell on profit-taking by overseas investors. *Fujitsu shed Y20 to* Y1,170 and Oki Electric Y3 to Y905. Other semiconductor related stocks were lower, with Advantest, which makes semiconductor testing devices, ending Y180 down at Y5,600.

In Osaka, the OSE average dipped 32.52 to 19,365.66 in volume of 34.6m shares. Nintendo, the video game maker which has been heavily sold over the past week on reports of a delay in the launch of its new 64-bit game hardware, regained ground. The stock advanced for the first time in five trading days to end Y110 better at Y7,510, on buying by corporate and foreign investors.

Roundup

A further tumble in Hicom was the feature in KUALA LUMPUR as investors continued to worry about the company's immediate prospects under new management.

The stock, which fell 4.7 per cent on Monday, lost 10.2 per cent or 46 cents more to M$4.04. Gadek, also involved in the Hicom restructuring, declined 70 cents to M$11.60.

The composite index, registering its sixth straight loss, was off 4.54 at 883.96.

SEOUL remained on its downward path as investors grew increasingly nervous that the probe into big business had continued for so long. The composite index weakened 5.64 to 948.40.

Samsung Electronics provided a rare bright spot, picking up Won2,000 at Won154,000 on rumours, later confirmed, that the company planned to buy back nearly 1m of its own shares.

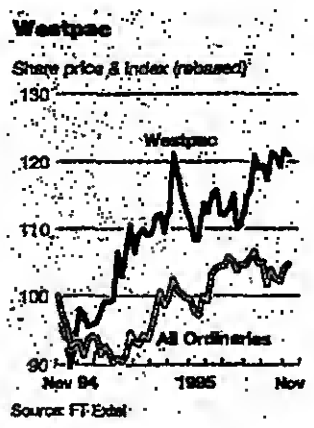
HONG KONG was firmer in another day of thin, directionless trading. The Hang Seng index improved 22.15 to 9,407.37 in turnover that edged up to HK$2.7bn, with attention still focused on today's FOMC meeting and Wall Street.

HSBC was active but held at HK$109, while Swire A slipped 75 cents to HK$55.50.

Hongkong Telecom moved up 15 cents to HK$12.90, leading the recently lagging utility sector higher.

Dealers noted strong selling by investment funds of Hopewell, down 20 cents to HK$4.475, on worries over a possible substantial cash call and lingering doubts about delays affecting some of its infrastructure projects around the region.

Westpac



Source: FT Extel

SINGAPORE was dominated by activity in small-capitalised stocks and the Straits Times Industrial index gained 3.10 at 2,067.00. Takeover rumours propelled Fu Yu to the top of the actives list with 16.8m shares traded. It ended S$0.04 up at S$0.64.

SYDNEY was helped by Westpac, which pleased investors with satisfactory full-year 1994/95 results and rose 6 cents to A$5.53. The All Ordinaries index made 1.7 points to 2,124.6, helped also by strength in the futures market.

TAIPEI finished sharply lower after presidential hopeful Lin Yang-kang said former premier Hau Pei-tsun had agreed to be his vice-presidential running mate.

The candidacy of Lin and Hau, both vice-chairmen of the ruling Nationalist party, represents a challenge to President Lee Teng-hui, the ruling party's presidential candidate for Taiwan's first direct presidential elections next March.

The weighted index fell 87.63 or 1.8 per cent to 4,630.97.

MANILA tumbled in late trade on worries about the level of inflation and higher interest rates. The composite index fell 19.64 to 2,340.41.

BANGKOK saw thin trade as selling of some selected stocks by foreigners led to fears of a bigger sell-off. The SET index lost 4.42 to 1,192.85. Turnover was Bt2.6bn ($10.4m).

COLOMBO was lower due to lack of support for blue chips and profit-taking. The All-share index slipped 5.53 to 663.70. Turnover rose to SLR31.2m from SLR10.8m.

JAKARTA declined on local late profit-taking after rising briefly early on as the focus remained on Telkom. The telecommunications group made its debut on the market, trading at Rp2,100, against the IPO price of Rp2,050. The composite index lost 0.71 at a provisional 466.65.

SHANGHAI's hard currency B index fell 1.7 per cent on heavy overseas selling, bringing to an end the technical rebound supported by domestic investors over the previous two sessions. The index shed 0.896 to 51.634 in volume of 6.4m shares, the heaviest since September 25.

BOMBAY finished off its lows after state-owned investment institutions stepped in to halt a plunge triggered by speculative selling. The BSE 30-share index ended 54.98 down at 3,138.79, but up from a low of 3,110.74. Dealers noted that rumours that some brokers might be facing payment problems helped the speculative sell-off.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY NOVEMBER 13 1995 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY NOVEMBER 10 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (82)	181.75	-0.2	172.88	116.87	134.13	163.64	-0.3	3.97	182.11	171.39	115.92	133.71	164.06	191.01	157.95	167.53
Austria (27)	169.88	-0.5	151.59	109.24	125.37	125.30	0.0	1.34	170.75	160.70	108.69	125.37	125.29	199.29	167.48	180.81
Belgium (35)	193.77	-0.8	184.32	124.59	143.00	139.44	-0.3	3.75	195.38	183.86	124.38	143.44	139.81	201.12	184.78	168.81
Brazil (28)	123.97	-4.5	117.93	79.72	91.49	219.48	-4.5	1.92	129.82	122.18	82.64	95.32	229.72	186.35	86.06	169.77
Canada (100)	145.88	0.7	138.77	93.81	107.66	142.73	0.6	2.58	144.94	136.41	92.26	106.42	141.88	150.83	121.81	131.47
Denmark (33)	279.25	-0.4	265.62	179.56	206.09	209.08	0.0	1.55	280.48	263.97	178.54	205.94	208.89	295.99	236.81	248.82
Finland (25)	224.52	-0.1	213.57	144.37	165.69	200.95	0.4	1.59	224.74	211.51	143.06	165.01	200.14	276.11	171.13	194.61
France (100)	176.70	-0.4	168.08	113.82	130.40	135.65	-0.1	3.23	177.49	167.04	112.98	130.32	135.74	191.17	157.79	171.82
Germany (59)	158.00	-0.4	150.30	101.60	116.60	116.60	0.1	2.05	158.64	149.30	100.98	116.48	118.48	167.74	135.39	143.85
Hong Kong (55)	360.18	-0.3	342.61	231.60	265.81	357.60	-0.3	4.09	361.25	339.99	229.95	265.25	358.65	389.39	277.40	379.97
Ireland (16)	247.16	-0.9	235.11	158.93	182.41	217.80	0.0	3.46	249.33	234.66	158.71	183.07	217.71	260.55	195.34	204.15
Italy (58)	69.40	-0.5	66.02	44.63	51.22	82.80	-0.4	1.84	69.75	65.65	44.40	51.22	83.15	82.71	66.45	78.51
Japan (483)	141.07	-1.4	134.18	90.71	104.11	90.71	-0.3	0.84	143.00	134.59	91.03	105.00	91.03	164.82	136.95	156.25
Malaysia (106)	426.07	-1.8	405.30	273.98	314.44	418.44	-1.6	1.98	433.87	408.34	276.18	318.57	423.23	561.96	398.18	508.03
Mexico (18)	832.22	-3.1	791.62	535.13	614.16	7092.70	-2.1	1.86	858.57	808.03	546.51	630.39	7242.18	2125.20	647.81	2064.95
Netherland (19)	254.68	-0.1	242.26	163.77	187.95	184.79	0.4	3.53	255.06	240.05	162.35	187.28	184.13	263.99	207.60	215.25
New Zealand (14)	80.98	-0.4	77.04	52.08	59.77	66.05	-0.2	4.39	81.35	76.56	51.78	59.73	66.15	85.49	69.56	76.55
Norway (33)	224.96	-0.2	213.98	144.66	166.01	191.25	0.2	2.19	225.45	212.18	143.51	165.53	190.90	243.79	192.92	196.85
Singapore (44)	362.07	-0.7	344.42	232.82	267.21	235.85	-0.6	1.75	364.69	343.23	232.14	267.77	237.33	414.29	313.94	389.48
South Africa (45)	376.45	0.2	358.09	242.07	277.81	299.24	0.2	3.90	375.77	353.66	239.18	275.81	298.53	376.45	261.06	335.81
Spain (38)	148.39	-0.3	141.15	95.42	109.51	137.51	0.1	4.14	148.81	140.08	94.73	109.27	137.40	180.51	124.10	142.01
Sweden (47)	304.13	-0.3	289.30	195.56	224.45	300.74	0.2	2.00	304.98	287.03	194.13	223.93	299.99	320.43	225.80	236.31
Switzerland (41)	223.23	-0.8	212.34	143.54	164.74	158.35	-0.2	1.68	225.01	211.76	143.22	165.21	158.68	225.57	158.38	188.15
Thailand (46)	149.91	0.6	142.60	96.39	110.63	146.44	0.6	2.78	149.09	140.31	94.90	109.47	145.35	184.55	130.15	173.26
United Kingdom (206)	222.29	-0.7	211.45	142.94	164.05	211.45	0.4	4.10	223.83	210.66	142.48	164.35	210.66	227.31	187.07	200.11
USA (504)	242.41	-0.1	230.58	155.67	178.89	242.41	-0.1	2.44	242.53	228.26	154.38	178.08	242.53	242.83	182.33	189.05
Americas (650)	220.62	-0.1	209.86	141.86	182.82	185.39	-0.1	2.44	220.82	207.82	140.56	162.13	185.54	221.07	170.66	176.94
Europe (737)	193.02	-0.5	183.60	124.11	142.44	162.72	0.1	3.12	194.06	182.64	123.53	142.49	162.49	199.02	163.04	172.80
Nordic (138)	276.61	-0.3	263.12	177.87	204.13	234.45	0.2	1.88	277.37	261.04	176.55	203.65	233.90	295.02	215.79	227.31
Pacific Basin (832)	150.87	-1.2	143.52	97.02	111.34	100.56	-0.4	1.30	152.72	143.74	97.21	112.14	100.94	171.87	145.93	165.48
Euro-Pacific (1569)	168.34	-0.9	160.13	108.25	124.23	124.03	-0.1	2.17	169.85	159.86	108.12	124.71	124.18	178.33	154.73	168.45
North America (604)	236.44	0.0	224.80	152.03	174.49	235.72	0.0	2.44	236.50	222.58	150.54	173.65	235.79	236.77	178.86	185.48
Europe Ex. UK (531)	173.04	-0.5	164.83	111.27	127.70	136.30	0.0	2.55	173.83	163.60	110.65	127.63	136.28	179.48	146.45	154.42
Pacific Ex. Japan (349)	244.69	-0.6	232.75	157.33	180.57	216.06	-0.5	3.41	246.06	231.58	156.63	180.67	217.17	265.72	211.19	256.03
World Ex. US (1760)	169.39	-0.9	161.13	108.92	125.00	127.65	-0.1	2.21	170.86	160.80	108.76	125.45	127.83	178.73	155.42	170.38
World Ex. UK (2058)	188.87	-0.5	179.96	121.45	139.38	155.68	-0.2	2.11	189.87	178.69	120.86	139.41	155.93	191.32	163.46	173.17
World Ex. Japan (1781)	220.03	-0.3	209.30	141.48	162.38	205.32	0.0	2.77	220.64	207.66	140.45	162.00	205.36	221.43	178.95	167.69
The World Index (2264)	191.79	-0.5	182.44	123.33	141.54	160.58	-0.1	2.30	192.84	181.49	122.75	141.59	160.73	194.25	165.92	175.55

Latest prices were unavailable for this edition.

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ENGINEERING IN ACTION

Taskforces embark on skills revolution

The industry says it cannot get enough engineers with the right sort of qualities and experience, writes Andrew Baxter

Just over a year ago, the Department of Trade and Industry launched five taskforces aimed at increasing substantially the influence, involvement and achievements of professional engineers and technicians for the benefit of British industry.

The aim of the taskforces, which are grouped together under the Action for Engineering banner, is to encourage UK companies to harness engineering skills and improve the understanding of engineering's contribution to wealth creation.

With such worthy aims, it is not surprising, perhaps, that the programme has hardly been at the top of the UK media's schedules since it was launched by Mr Michael Heseltine, then trade and industry secretary. Yet the issues it aims to tackle are at the heart of the many problems that the UK has created for itself in the way it views engineers, educates and uses them.

The taskforces – expanded to six with the division into two of one of the original groups – are industry-led, and comprise 125 people from industry, education, the engineering professions and organisations, and government. For the past year, members of each taskforce have been discussing the way forward, but now the time for action is fast approaching.

The result is an ambitious, co-ordinated attempt to create a skills revolution, addressing past errors, buck-passing and division over the way engineers are selected, educated and trained. "It is the first time during this century that there has been a concerted effort to deal with this deep-seated cultural issue," says Mr Tim Eggar, industry and energy minister.

The list of problems looks daunting. First, the status of engineers and the view of their value is far too low, says Mr Eggar. Second, although there is no shortage of numbers of engineers, industry says it cannot get enough engineers with the right sorts of qualities and skills.

Japan's Ministry of International Trade and Industry (Miti) and Japanese inward investors have complained recently about the shortage of good quality engineering candidates for middle and top management positions at Japanese entarprises in the UK. "We are beginning to get significant evidence that the lack of the right quality of engineer is having an impact on people's perception of the ease of manufacturing here," says Mr Eggar.

Contrary to received wisdom, recent research has shown engineers and scientists have a better chance than unqualified people or those that have studied other disciplines of reaching the top in UK manufacturing industry. But the companies headed by engineers and scientists perform distinctly less well than those beaded by accountants and non-technical graduates.

There is a mismatch, too, between the qualities industry needs in its engineers – vision, leadership, initiative, communication skills, ability to work in a team, risk-tolerance, flexibility and self reliance – and the personality profile of some engineers. This tends to be relatively inflexible, less open to change, prosaic, conformist and rule-conscious. "Some engineers do lack the skills and graces that make them round and complete people," says Sir Christopher Lewinton, chairman of TI Group, the specialist engineering group.

Individual engineers, meanwhile, complain that employers are not using, developing or paying them properly, and that the professional institutions are not providing the right services.

Mr Eggar believes this situation is "overwhelmingly a cultural prohlem" that was first diagnosed in the middle of the last century. "We have been very good at educating the top end of the academic elite, but in engineering we have failed to ensure that good people have gone in and stayed in."

The proliferation of engineering professional institutions, and their unwillingness to get together for the greater good, had not helped, while industry had not "sold engineering" as it should have done. "There is a perception, for example, that engineers are badly paid," says Mr Eggar. "Bot the perception is a lot worse than the reality, even if the reality is not as good as it should be."

Many of the negative aspects of the general picture are already being addressed, and progress has been made. Figures last month from the Engineering Council, for example, showed that engineers' average salaries were continuing to rise in real terms. General joh satisfaction is high and engineers' views of their own worth are improving. About two-thirds of engineers polled in the Council survey said they would recommend engineering as a career.

But more needs to be done. "There is a virtually universal view," says Mr Eggar, "that if we can get industry, the institutions, academia and the government working together, we can make better use of the engineering talent that we have got."

This is where the taskforces, with a steering group led by Mr Rob Margetts, an executive director of Imperial Chemical Industries, enter the picture. After working quietly bnt intensively through this year, they have identified a large number of projects for further development and implementation, mainly by mid-1996 when the initiative formally ends.

Some of the projects are new, but the majority are intended to hring better co-ordination and focus to existing initiatives in the six subject areas: promotion of engineering careers in schools; making better use of engineers; training more technicians and supervisors; structure and standards in the formation of engineers; excellence in graduate and post-graduate engineering education; and promoting the importance of technology (which includes raising the profile of engineers).

The taskforces hava brought together people with very different views on how the issues should be tackled, and where the blame lies, and the initiative has not heen effortless. "Occasionally we have had to push and shove and on other occasions the taskforces have given us a push," says Mr Eggar. But, he says, the initiative has exceeded expectations. "I think we have a good package of practical proposals."

So will the initiative work? In its favour is the fact that it has recognised there are no magic, instant, cures for such a long-standing cultural problem. Instead, says Mr Eggar, "we are putting into place a large number of relatively small building blocks, to create one big edifice."

Addressing the issues will involve at least a decade's work, he says, and will require continued commitment from, and "ownership" by, the four partners. "In terms of our competitiveness, it is an absolutely critical area," says Mr Eggar. "These are difficult issues, where we are weak compared with our competitors".

Industrialists are strongly backing the Action for Engineering programme. Sir Christopher at TI believes the taskforces' objectives are "exactly the right way to go" although he adds that "what is happening is good, but it has to happen faster."

But industry will also have a key responsibility in ensuring the initiative is successful. It has to insist that academia produces the engineers with the breadth of skills that it needs, but needs then to employ and develop them properly throughout their careers and pay well enough to attract and retain the best. Sir Christopher says engineering companies have to be courageous and move "quite aggressively" on pay to help close the gap with City salaries.

One encouraging development, although as yet untested, is the new Engineering Council, which is formally launched next February. An important aim is to create for the first time, via a new Board for the Engineering Profession, a single, powerful voice for the profession on industry-wide issues. But already, the new spirit of co-operation among the institutions has helped the taskforces make progress, says Mr Margetts.

This week a number of activities are taking place or beginning in connection with Action for Engineering. Tonight, the great and the good have been invited to a lecture on the importance of engineering being held by the Foundation for Science and Technology at the Royal Society, London.

A poster campaign is beginning on the London underground, and another on buses in Wales, to attract young people to a career in engineering, and the BBC has a special season to celebrate engineers and their achievements. A brochure on the role of engineering and career opportunities, produced by the Engineering Council and the institutions, is also being published.

The momentum continues next March with the third National Week of Science, Engineering and Technology, co-ordinated by the British Association for the Advancement of Science. Next autumn will see the beginning of the Year of Engineering Success, a widely-backed campaign aimed at increasing public understanding of engineering's importance.

"We need to create the same awareness throughout society so that talented people are attracted to engineering," says Dr Mary Harris, the campaign's director-general and head of technology strategy at British Gas.

II ENGINEERING IN ACTION

Unification: by John Dunn

Change and disunity

The hope is that the new structure will revitalise professional resources

It might seem unwise to *question the benefits of* unifying the engineering profession in the middle of elections to create Britain's first democratically-elected national engineering anthority. But it is almost five years since industrialist and Engineering Council chairman Sir John Fairclough began his search for a way to bring Britain's fragmented engineering profession under one body .

Now, as Britain's 290,000 registered professionally qualified engineers begin returning their ballot papers to elect 48 of their fellows to serve in a new engineering "senete," what sort of unity are they voting for? The answer depends very much on the sort of people they elect and their vision of the future for Britain's engineering profession.

What unity will not bring is Sir John's dream of a single, all-encompassing engineering institution, dragooning the UK's 39 professional engineering institutions together under the euthority of the Engineering Council. Instead, from January next year, the Engineering Council will effectively disappear to be replaced by a new Engineering Council with a ruling senate whosa members will be elected in equal numbers from the rank and file of engineers on the council's register and from the institutions. The senate will exercise power through two elected executive boards.

The Board for Engineering Regulation (BER) will maintain the register of the UK'a 290,000 chartered, incorporated and technician engineers and will set the standards for engineering education and training in Britain. It will allocate the work of assessing and approving company training schemes and university engineering courses to individual institutions, in much the same way that the Council operates at the moment. And it will audit the quality of the institutions' work.

But the make-or-break for unity comes with the formation of the new Board for the Engineering Profession. There has never been anything like this before. Its task is to promote the profession. Its remit is to look et every engineering issue that the BER doesn't tackle. The idea is that the BEP will become the voice of the profession. It will respond to issues where the profession needs e single, powerful voice. It will be the link between industry, academia and government on behalf of the profession, says its chairman-designate, industrialist Brian Kent.

The board will set up joint ventures between institutions and other bodies that institutions can "buy into" if they wish. Thus, unlike the current Engineering Council structure, the institutions will in effect "own" the BEP, says Mr Kent.

In the words of Mike Heath, the Council'a new director-general: "The Engineering Council will become an organisation that facilitates, not does. It will be the table around which the institutions sit. We have never had that before. For 14 years, the Engineering Council has tried hard to knock institntion heads together. But all it created was antagonism and antipathy. We have now got an agreement to work in harmony and partnership."

In 1991, as the newly-ap*pointed chairman of the Engi*neering Council, Sir John was aghast at the etmosphere of mutual mistrust and acrimony between the Council and the engineering institutions it was meant to speak for. But this division had been in effect laid down in 1981 by the then Tory industry secretary Sir Keith Joseph when ha created the Engineering Council, following the Finniston Inquiry.

Sir Monty Finniston, former head of British Steel, wanted an "engine of change" to revitalise engineering in Britain. But Sir Monty did not have much time for the institutions or for the then Council for Engineering Institutions. He wanted a new statutory body that would register engineers without any reference to the institutions.

It would have strong links with industry and the trada unions. It would provida a broad, multi-disciplinary view of engineering that he felt the single discipline, learned society structure of the institutions, rooted in the 19th Century, could not deliver.

The Council was deliberately structured to reduce the power and influence the institutions could have in its operation. And, in practice, the Council has often seemed to go out of its way to ignore and antagonise the institutions. In addition, it was not democratically elected.

Thus, despite much good work in co-ordinating regional engineering activities and in promoting engineering in schools, the Council signally failed to unify the profession and to become the "engine of change" which Sir Monty Finniston, former head of British Steel, had wanted.

However, by tha time Sir John picked up the reins, there was e growing acknowledgment among many institutions that e certain amount of coming together had to take place. Some - both large and small - could no longer afford to deliver the services their members wanted on their own. Also, industry wanted multi-skilled engineers rather than niche specialists, putting strains on tha institutions' traditional routes to professional qualification.

Bnt, one single all-embracing engineering institution was never going to work. Within minutes of the launch of Sir John's proposal in April 1993, the presidents of the four leading institutions publicly threw it out. Instead, the idea of a "federation" of individual institutions working through an elected senate was agreed.

> **Representatives have been talking about common issues**

Trevor Evans, secretary of Institution of Chemical Engineers, explains: "Just because a number of disciplines all hava engineering after their name doesn't make them any more similar than, say, the different science disciplines."

Also, says Richard Pike, director-general of the Institution of Mechanical Engineers, many of the individual institutions perform a very efficient job of delivering specialist technical and professional services to their members.

So what has Britain's engineering community got for Sir John's five years of effort? According to Mr Heath: "Now we have an arrangement, an organisation, that is well placed as never before to do for this country what engineers in Japan and Germany have been doing for theirs for years."

Even before the new Engineering Council is formally launched next February, representatives from a dozen or more institutions have already been sitting together in one room talking abont common issues, says Kent. "We have never achieved that before," he says.

For the smaller institutions, unification has brought them the chance to have a say and show that they have a value. "It has made us all sit round a table together," says Diane Davey, head of the 8,000 strong Institution of Mechanical Incorporated Engineers. "But the big challenge for unification is keeping it going after the razzmatazz dies away on February 2."

Dr Pika at the IMechE believes the new body will lead to a consolidation of the accreditation processes for engineering degrees and training courses in order to meet industry's needs. Unification could eventually lead to e shift in the imbalance between too many chartered engineers and not enough incorporated engineers, he says, and thus eventually enhanced status for engineering.

But status has to be earned, he warns. "It will only come when chartered engineers are clearly seen to be demonstrating to their companies and the country the added valua of being chartered."

Given a fair wind, and it seems to have been given that, the new Engineering Council may yet turn ont to be the late Sir Monty's engine for change.

● *John Dunn is editor of Professional Engineering*

Interview with Rob Margetts: by Andrew Baxter

The co-ordination of resources

His role has to be that of the classic engineer - less talk and more delivery through action

The challenging task of chairing the steering group overseeing the Action for Engineering initiative was awarded last year to Mr Rob Margetts, an Imperial Chemical Industries executive director with responsibilities for engineering and manufacturing. In this edited version of an interview, Mr Margetts reviews progress made so far by the taskforces.

What did you feel about taking on the role of chairman of the steering group? Given the challenges, it must have seemed a daunting task.

Certainly it was daunting, given the huge span of engineering and the fact there were so many activities I was asked to seek to integrate to better effect. But if progress in any area was possible, then it was a most worthwhile task. There is so much energy and so many good things going on, and clearly more effective co-ordination would produce beneficial results.

Given thet many interests and views are represented in the taskforces, how much steering and "refereeing" have you had to do to keep things on track?

At first, it was necessary for all the interested parties to accept the ground rules. I said the programme was most definitely not aimed at creating new empires, but that it was to try to build upon the best of the existing initiatives and achieve superior co-ordination. Also, it was to have a defined time length, and would hand on any work to an existing or new organisation such as the new Engineering Council. I must say I am absolutely delighted – given the wide variety of people involved – by the tremendous co-operation within the taskforces. When we have debated differences they are real, and we have to recognise they are real, but the spirit has been tremendous. Over the last six or nine months I have moved into e classic engineers's role, project manager. This is not a talking shop, and there must now be a clear focus on action that can be delivered and completed.

Can you pick out particularly important projects?

That is difficult, given that so many talented people are giving their prime time voluntarily – it's all good, and it's all been value tested and managed by very senior and committed people. But there are two or three areas which I think are very profound. In schools, the original definition of our project was essentially engineering, careers, schools and teachers bnt it has become very clear that it is more about the delivery of enthusiasm into science and maths in primary and secondary schools. We want to make thet task easier for teachers by providing delivery mechanisms locally and regionally, not nationally.

Margetts: 'daunting task'

The abundance of existing schemes – all extremely good, and with an enormous amount of enthusiasm and resource behind them – make life very confusing and demanding for teachers and hance the schemes do not achieve their full value. We are working towards proposing e way in which that co-ordination can occur. Taskforces two and three have got some excellent work going on identifying best practice and then finding imaginative means of getting it adopted in career development and in the training of supervisors. The formation of engineers is going extremely well, while there are some very exciting ideas for involving engineering students in schools, for more sponsorship of talented lecturers, and improving interaction, in the area of engineering excellence, between industry and universities. Taskforce five is pretty fundamental, and will bring into a more public and senior domain the sheer excitement of engineering.

What are the funding implications of these projects? Will it need extra DTI money?

The whole field is not short of very good, well resourced initiatives – that is our view on the steering group and that of the government, so most of the necessary resources are already in play. But there are some new projects, and there is clearly the need for some "seeding" to improve co-ordination. That does mean some initial new funding on a start-up basis for the new projects such as the dissemination [of best practice information] in taskforces two or three. They may need a bit more revenne funding too. Our sponsors are not entirely relaxed on this issue but so far every time we've asked we have received the financial support we have required to proceed.

How sure are you that this initiative is going to work?

The issues are immensely profound, and it's not as though these fields have not been tilled before. Clearly achieving more effectiveness has not historically proved a very easy task because there are so many agencies and so many disparate activities. However, the sense of collaboration has exceeded my expectations. Another thing gives me confidence that the programme will lead to achievements over the next few years and beyond is that it is being managed by engineers. They are very practical people, who don't give up their prime time unless they are very committed to deliver.

What happens next?

I hope we achieve e good proportion of some very demanding objectives, although I'd have to be sceptical about whether we get them all. Some projects go beyond next year but all the taskforces have to work ont an exit plan with other bodies that will carry on the work, and we are in the process of forming partnerships with our exit bodies. That's gives me confidence that there there is long-term commitment to make the best use of this programme.

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■ **Six taskforces have been set up to identify targets for educational action,** *writes Mike Farish*

Schools initiative

There is no shortage of initiatives aimed at making schoolchildren perceive engineering as a dynamic, creativa profession of great value to society as e whole and at creating enthusiasm among them for the idea of becoming engineers themselves.

Much of the effort has hed tangible results, but confirmation that a great deal still needs to be done has come in the last few weeks in the form of a survey of over 350 11-14 year-olds carried out for the Engineering Training Authority (EnTra).

The survey found they had a predominant image of engineers as "messy, fat, middle-aged men" who mend cars and tinker with washing machines, though, when prompted, over half the children did at least also associete engineering with "designing and making things".

This is the issue being addressed by the Action for Engineering Taskforce Ona (*Promotion of Engineering Careers in Schools*) chaired by Mr Leslie Jones, life president of Biwater, the water engineering company.

Mr Jones says that establishing an effective means of co-ordinating all the various current activities is the priority objective. To achieve this plans are being laid now for a new "national council", in which all the current major "providers and deliverers' will be involved. Given the number of organisations involved the body will "not be small", says Mr Jones. Likely members include, for example, Tha Engineering Council, the Gatsby Charitable Foundation, the Standing Conference on Schools' Science and Technology and the British Association for the Advancement of Science.

Mr Jones also stresses that great effort has been made to avoid any "new bureaucracy" and that, as far as possible, existing structures will be used.

Two specific fields of activity have also been given priority. The first involves giving teachers more experience of industry by: letting relevant schemes have an input into teacher training; getting more young science and engineering graduates and undergraduates into classrooms to work with teachers and pupils; providing easy access to support material, such as an enhanced version of the Science Connections guide produced by the Office of Science and Technology, by means including internet-type electronic networks; and giving industry-education links a formal place in the *curriculum*.

The second is to focus ettention on primary schools to help the teachers and pupils there build firm foundations in mathematics, science and technology. Action is necessary, says Mr Jones, to inhibit the early formation of prejudices that might affect later career choices.

Career guidance

One of the engineering profession's oldest gripes is that in their professional lives engineers too often find themselves "on tap, but not on top". Individual engineers do, in fact, frequently occupy management positions and also enjoy considerable personal autonomy. But there is still a perception that the profession does not enjoy the prestige or influence warranted by the competence, education and training of its members.

Enhancing the effectiveness of engineers throughout their careers is the challenge facing the Action for Engineering *Taskforce Two (Making Better Use of Engineers)*, chaired by Mr Graham Mackenzie, director-general of the Engineering Employers Federation (EEF). Mr Mackenzie says the symptoms of the situation include a relative paucity of engineers in the most senior positions in industry and a tendency for some of the brightest graduate engineers to seek employment in other sectors. The causes, however, can be traced directly to the way that engineers are "trained and used". In particular, young engineers are not given enough responsibility early in their careers, nor do they have a sufficient training in management, communication and general business skills.

The taskforce aims to identify current industry best practice and disseminate relevant information, including case studies, through both publications and a regional seminar programme. Both engineers and their employers will be targeted, says Mr Mackenzie, in a programme that will seek to address the issues involved as they affect engineers at three distinct stages in their careers: immediately after graduation; when they reach the age-range late 20s to early 30s, just before they might be expected to attain Chartered Engineer status; and later on, when they will have gained considerable professional experience.

Effective delivery of the messages involved will require closer co-operation between employer-led organisations, such as the EEF and the Training and Education Councils, and the engineering profession's lead bodies, The Engineering Council and the individual institutions. Mr Mackenzie promises a "higher profile" role than previously for the EEF. There will also be an emphasis on the needs of women in the profession and on engineers in small and medium-sized companies. On this point, Mr Mackenzie explains thet graduate engineers are increasingly taking the "small company route" and will therefore have to take greater responsibility for organising their own career progression through self-managed continuous professional development.

Training levels

During his time at the DTI, Mr Michael Heseltine, deputy prime minister, described the lack of individuals qualified to intermediate skills levels as the "black bole" of UK industry. This description is fully endorsed by Dr Michael Sanderson, chief executiva of the Engineering Training Authority (EnTra) and chairman of the Action for Engineering Taskforce Three (Training More Technicians and Supervisors).

Dr Sanderson says the people in question are those qualified to Netional Vocational Qualification (NVQ) Levels 3 and 4 or equivalents. They work on the shop-floor, frequently have responsibility for overseeing colleagues with manual craft skills and are a crucial link in the production chain that aims to embody the design and planning work carried out by higher level Chartered Engineers in products to meet world-class quality standards.

But, quite simply, there are not enough of them. The consequences, says Dr Sanderson, include difficulties in achieving the "*zero defect*" levels commonly associated with Far Eastern, particularly Japanese and South Korean, manufacturing procedures and the reappearance of skills shortages as UK industry emerges from recession.

The taskforce has come up with several ideas to reverse these trends. A core activity will be the prodnction of around 50 case studies and their dissemination through both a printed Best Practice Guide and presentations et a series of regional conferences scheduled to take place from the middle of next year.

Some of the companies that will feature in the guide have already been identified. Short Brothers in Belfast was selected on the basis of a drive to increase its design and development capability through an in-house campaign that saw 120 production personnel selected for training in design or manufacturing engineering skills. The training involved the use of computer-aided design technology and more general interpersonal and business skills in areas such as making presentations, budgetary control and total quality. Shorts ensured beforehand that the training would qualify for NVQ Level 4 units. The consequence has been the provision of e new pool of engineers capable of tackling day-to-day tasks, releasing senior engineers to concentrate on more difficult work. Shorts is also saving approximately £1.25m annually by avoiding expensive sub-contract labour. Meanwhile two other subjects being tackled by the taskforce are an examination of tha financial disincentives to training et intermediate level and the encouragement of women to gain relevant qualifications.

Learning standards

The educational standards that underpin the formation of engineers and the means by which they are formulated and implemented are a constant preoccupation for the engineering profession. At the beginning of this year, for instance, The Engineering Council published a hefty document Competence and Commitment. It argued that new levels of both foundation and specialist learning and of continuous professional development (CPD) will be required to ensure a supply of trained and experienced engineers able to meet the future demands of industry and commerce.

A key idea is to use "occupational standards', as well as purely academic qualifications, to determine the competence of individual engineers to perform professional work.

These ideas are now being codified into a new version of the profession's "foundation document" Standards and Routes to Registration (Sartor). This is the area being addressed by the Action for Engineering Taskforce 4A (The Formation of Engineers - Structure and Standards). The taskforce is chaired by Dr David Fussey, vice-chancellor of the University of Greenwich. He makes it clear the taskforce is not attempting to formulate an alternative set of standards. Instead the aim is to forge more effective links between the engineering profession's existing work in the area with the world of industry and employment.

One objective is in define a "national framework" for continuous professional development (CPD), the acquisition of new skills and knowledge by individuals already in employment. The need, says Dr Fussey, is to provide a means for "storing and interchanging credits" so that individuals can move easily between different jobs with the same or different employers and, much more crucially, build up the "multi-disciplinary" skills profile increasingly required by today's working environment.

Other objectives are aimed at providing guidance for industry through the frequently complex structure of different qualifications and the routes to achieving them. One specific idea is for an "atlas" mapping out the edncational routes to achieving registration at each of the three categories of engineer or technician recognised by The Engineering Council: Chartered Engineer; Incorporated Engineer; and Engineering Technician. Guides to the projected new CPD framework, the revised version of Sartor and, over the longer term, for engineering-related NVQs may also be produced.

Graduate ranking

Devising strategies for attracting the most able school studeots into engineering degree courses and ensuring they then receive an education of the highest quality is the challenge facing the Action for Engineering Taskforce 4B (Excellence in Graduate and Post-Graduate Engineering Education).

The taskforce is chaired by Professor Bob Boucher, Pro-Vice- Chancellor of the University of Sheffield. He says the group has had to examine the ways engineering is presented to school students as well as the teaching of the subject at university. In both cases, enhancing the motivation and experience of the teaching staff is an integral part of improving the quality of the tuition the students receive. The taskforce has identified five core activities in support of its objectives.

These are:

- improving the provision of engineering summer schools for pupils and teachers and of co-operative links between schools and undergraduates;
- facilitating access to postgraduate qualifications and continuous professional development through more flexible means of provision, including information technology;
- attracting and retaining able individuals as engineering educators by special bursaries and public recognition of significant contributions to the enhancement of engineering education;
- ensuring continuous dialogue between academia and industry to sustain the development of engineering talent;
- encouraging the recognition and development of best practice in university departments through accreditation and other forms of public acknowledgement.

There are already initiatives to top up the pay of young university teachers of engineering subjects to ensure they remain in academic life. ICI and Esso, for example, have both provided support for teechers of chemical engineering. Mr Boucher says the Taskforce would like to see the principle extended and formalised into e national scheme in which industry and public funds are used on a 50/50 basis to provide salary supplements to outstanding individuals.

In return, the teachers involved would be expected to give something back in kind, such as consultancy or training advice, thereby further reinforcing the industry-academic link. A much more radical idea, however, is that of incorporating an assessment of a university department's links with industry into the accreditation process by which it is formally epproved as a provider of degree courses.

Promoting the profile

Passengers on London Underground trains are already seeing some results of the Action for Engineering initiative. This month a series of posters have gone up inside every carriage on the network highlighting four of the more spectacular current products of engineering knowledge and skills. These are: the futuristic Battlemax motorcycle created by PDQ Motorcycles of Maidenhead; the streamlined TriCat ferry built by FBM Marine on the Isle of Wight; the Lovat tunnelling machine currently excavating the extension to the Underground's own Jubilee Line; and the jet-powered Thrust SSC supersonic car intended to break the sound barrier on land for the first time.

The posters - with a combination of crisp copy, eye-catching graphics and witty headlines like A Degree in Engineering and You End Up Working on the Ferry - have been produced by the initiative's Taskforce Five (Importance of Technology). The taskforce, led by Mr John Collier, the chairman of Nuclear Electric, is aiming to enhance understanding of the importance of science and engineering, and hence of scientists and engineers, in the UK's boardrooms, among managers at all levels and in the media.

According to Dr Richard Pike, director-general of the Institution of Mechanical Engineers, who leads a sub-group addressing the status of engineers in companies, a core issue is simply the lack of impact made by engineers in the boardroom. The characteristica of successful leadership in fast-moving, high-technology companies are "vision, imagination and communications skills". But the training of engineers has traditionally made them "mechanistic and deterministic", so that even those who achieve board positions find themselves in an alien environment. It is, says Dr Pike, "not e question of a skills shortage, but of a major *cultural difference*".

The taskforce has, therefore, come up with the idea of a Masters Degree in Engineering Business Management specifically intended to fit engineers for director-level positions.

The tube posters, meanwhile, are the products of another sub-group led by Mr Patrick McHugh, vice-president of consultancy firm AT Kearney, which is seeking to increase engineering's media profile. Mr McHugh says several ideas are under active consideration. These include investigating the feasibility of setting up a permanent showcase exhibition of science and engineering.

● *Mike Farish is managing editor of Engineering magazine*

IV ENGINEERING IN ACTION

Media: by Christopher Dunkley

A long way over their heads

Belatedly and simply, the BBC is introducing engineering to its viewers

You are far more likely to find programmes on television about genetic engineering than about mechanical engineering. This seems odd given that mechanical engineering involves all sorts of photogenic subjects from motor manufacturing to hridge building, whereas genetic engineering involves microscopic processes which are difficult to convey via television's crude images.

It is hard to avoid the conclusion that one of the main reasons for this is that television companies, from the vast BBC dowo to the smallest independent, are staffed overwhelmingly by people trained in the arts and humanities. It seems that genetic engineering, because of its ethical problems, fascinates those with degrees in philosophy or sociology. Building cars does not.

When television hegan, the first programme makers came from radio, the press, the theatre, cinema, book publishing, and university arts and humanities departments. Nothing much has changed.

Make this point nowadays to one of the grandees of broadcasting and he will smile witheringly and ask whether yon are aware of the degree held by John Birt, Director-General of the BBC.

Mr Birt read engineering at Oxford. However, as he is the first to point out, his subject was really mathematics, and even that occurred more as the result of a pushy school teacher than from any passionate enthusiasm for the subject in John Birt.

In any case, Mr Birt is the exception that proves the rule. Leave bis office and head upwards or downwards and you can go a long way without meeting anyooe else with a science degree. Glance through the names oo the BBC board of governors and yon find politicians, diplomats, writers, teachers, and civil servants, but not a lot of scientists. Pop into the BBC oews room, and you can't move for people with Firsts in economics, history or English. Scientists will be much harder to find. To discover an engineer you'll probahly have to go to the video department or one of the transmitter sites.

Discerning viewers and listeners are well aware of this heavy bias and complain about it. But, when these complaints are put to those in charge of hroadcasting, the answer is always tbe same: whereas a fairly well-educated member of the public can follow a programme about literature, politics or, at a pinch, even medicine, there is a much greater problem with science.

Science programmes are made, of course. Look at *Horizon* and *Equinox*, excellent stuff - but when it comes to physics or chemistry, let alone mathematics, obviously things are more difficult, aren't they?

It rarely seems to occur to hroadcasters that this is a chicken-and-egg conundrum in which they could easily play the role of the battery farmer.

One reason for so many viewers and listeners feeling uneasy with science suhjects, assuming they really do, might surely be the fact that broadcasters have spent the past 50 years getting their programmes made almost exclusively hy specialists in the arts and bumanities.

The one admission you can extract from hroadcasters fairly readily is that engineering and, especially, technology is badly under-represented in the schedules. Yet precious little seems to be done about it.

Good, then, to be able to report that BBC2 has a a special season this month called "Grand Designs" which promises to "celebrate engineers and their remarkable achievements". There will be a *Horizon* on nanotechnology; an edition of *One Foot In The Past* devoted to television's favourite engineer, Isambard Kingdom Brunel; and a programme called *The Unseen Hand* which will highlight the cootributions made hy engineers to "landmark" buildings for which the credit invariably goes to architects.

There are also two series which it has been possible to preview: *The Limit*, which looks at current attempts to create the fastest (cargo ship), tallest (building), largest (passenger air liner) and so on; and *Working Principles*, a collection of 90-second squibs about the basic elements of engineering: gears, levers, screws and much more.

It seems a pity that the very first *Working Principle* is the wing, since this trots out the familiar theory about pressure over the top of an aerofoil being lower than that on the underside, thus producing lift, conveniently ignoring the fact that aeroplanes can also fly upside down. It also dismisses the theory of wing thrust in hirds, hringing to mind the famous USAF "proof" that humble bees are incapahle of flight - which it ignores.

Of course, there is only so much you can do in 90 seconds, but this opening effort is not unrepresentative in appearing to be talking down to the very, very simple-minded.

As you move on through the principle of huilding an arch, getting a 30,000-ton object to float, and so on, what becomes clear is that, like a large proportion of tbe small number of previous programmes on engineering, there is a powerful determination here to stick as closely as possihle to the buman element.

The idea of even the most hasic diagram is, it seems, anathema and as for an equation - well! Viewers would think they'd happened npon the Open University and zap straight over to ITV, wouldn't they? So there are plenty of jokey hits and nothing to tax the hrain too much.

The programmes in *The Limit*, with 30 minutes to cover their suhjects, are more rewarding. And they resort happily to theory whan it helps: showing how a tall huilding survives an earthquake better than a short one; how a short, fat ship can move faster through heavy seas than a tall, narrow one and with less pitch and roll; or how turhulence off the wing-tips of a 1,000-seat airliner would cause a damaging increase in the interval time between landings at busy airports.

These are still decidedly "popular" programmes which make no assumptions about even the simplest engineering knowledge in the viewer. But if, with thsir undemanding approach, they attract sizeahle audiences then perhaps someone in television might decide to put a regular engineering and technology series alongside those about history, archaeology, and astronomy.

'Horizon' will look at nanotechnology - atomic-scale engineering - this month   Picture: BBC

Women: by Lisa Wood

Worthwhile and diverse

Companies need to make their culture family-friendly if they are to attract women who will stay

Anne Tweddle'a family found it difficult to understand when, more than 20 years ago, she announced she wanted to be an engineer.

"It was not the kind of career that girls aspired to," says Mrs Tweddle, who attended an all-girls grammar school which, in the main, produced doctors, nurses and teachers.

Mrs Tweddle, aged 35, is now principal systems engineer at AT&T Network Systems, a subsidiary of the US-owned telecommunications group, and still encounters the same prejudices when she visits schools to talk to children and parents about engineering.

"Many parents still see it as a male industry and have visions of engineers being either up to their elbows in grease or stuck out on some lonely site," she says. "There can he elements of truth in both these stereotypes, hut the industry provides a tremendous variety of jobs and great opportunity to progress in different directions."

Greater efforts need to be made to promote awareness of the diversity of engineering, and its suitability for women. "Jobs can vary from designing how something looks to working on how it operates," says Mrs Tweddle.

Several agencies are actively involved in advancing engineering as a worthwhile career for women. These include the Engineering Council, which is running the Women into Science and Engineering Campaign (Wise), the Institutioo of Electrooics and Electrical Incorporated Engineers, which makes an annual award to promote the idea, and the Department of Trade and Industry which has set-up a unit to promote the participation of women in science, engineering and technology. The latter's activities include raising the public'e awareness of the contribution women are making in this field; improving caresrs' advice; and encouraging good employment practices.

The majority of women in engineering are at the chartered engineering level, with few at the technician, operative and craft levels. About 14 per cent of engineers at the chartered engineering level are estimated to be women, compared with 7 per cent in 1984.

With a number of companies down-sizing because of the recession, it is seen as a significant rise hy Mrs Marie Noelle Barton, manager of the Wise Campaign. Getting women to become engineers is only half the battle. Encouraging them to stay on is perhaps as hig a task, with many women leaving the industry in their child-rearing years, resulting in the loss of highly trained workers.

The DTI, aloog with the Engineering Council is seeking to highlight to employers the financial and competitive benefits of estahlishing family-friendly workplaces.

A recently published booklet on this theme said: "Women scientists and engineers can face particular challenges, as the time when their careers are at a crucial stage often coincides with the years of child-raising. Job mobility can also pose a problem for women with families."

Addressing these prohlems should be good for business, said the DTI. In the booklet it gives several examples of good practice, inclnding that of Rank Xerox, the office equipment manufacturer.

It has developed family friendly policies, such as improving maternity benefits and allowing women to phase their return through part-time working. These steps reduced its loss of skilled and experienced women from more than 80 per cent to less than 20 per cent.

Rank Xerox estimates that over five years, after allowing for the cost of the programme, this initiative has hrought a return of £1m through savings in recruitment, retraining and lost productivity.

Mrs Tweddle, who is expecting her second child says:"It is a lot easier for women in the engineering industry now than, say, 10 years ago." AT&T, for which she has worked since 1990, has developed a working environment conducive to women engineers, she says. "When pregnant, we can be confident about having time off to visit the doctor and we can get part time work. The company seems genuinely to want to employ women - it's not positive discrimination - hut there is a feeling that the company believes it is good to have a mixed workforce."

The corporate culture she says, is also family friendly. "It is accepted that people - not just women - have families and we are not encouraged to work excessively outside our official working hours." But she adds: "It is very hard for women to work in a demanding job and have children. Engineering is no different."

Not all women engineers are as enthusiastic about their employers. One woman, a former winner of the Young Women Engineer of the Year Award, made by the Institute of Electronics and Electrical Incorporated Engineers, says she feels she has not been regarded as seriously as her colleagues in the promotion stakes since she had a family.

She worked a three-day week after the hirth of her child but, at a time when the company was laying workers off, her manager made it clear that he wanted her back at work full-time.

Again, like Mrs Tweddle, sbe makes visits to schools and says that young women rarely ask wbether ber employer has family friendly policies. "I suppose it is too early in their lives for them to be concerned about things like that," she says. "They are thinking at that point about whether they will get a joh, not about when they will have hahies." She says that policies do vary very much from company to company, with some divisions within the large company she works for more sensitive to the needs of women than others.

Engineering, like any other industry dominated hy men, carries everyday prohlems for women. "I was on a site with about one hundred men installing plant and I found there was no door on the loo," says Mrs Tweddle.

Now that her job is more deskbound she says she still suffers the small aggravations commonly felt by women in senior positions. "I do quite a lot of entertaining and I ofteo have to remind the waiter that I am picking up the bill."

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JAPAN IN ASIA

Apec summit faces tough test of wills

Japan's turn towards Asia has been accompanied by a deepening integration of the region's previously disparate economies, writes William Dawkins

Hardly a day goes by without a new investment, joint venture, trade or diplomatic mission from Japan to one of its Asian neighbours.

Whether it be a mobile telephone plant in China, a car model designed specifically for Asia, a report to the Burmese government on how to build a market economy, seminars on Japanese style and industrial policy for senior Asian bureaucrats or an emergency rice shipment to North Korea, the common thread is clear.

Asia has in recent years come closer to rivalling the US as the focal point of Japanese business and foreign policy. Washington is still central to Japan's interests, but those interests are becoming more Asian.

The changing balance between Japan's eastern and western concerns will influence an event at the centre of world attention tomorrow, when Japan opens the Osaka summit of the Asia Pacific Economic Co-operation forum, a group of 18 governments representing half the world economy. Under Japan's chairmanship, this Apec ministers' annual summit faces a tough test of members' will to agree how to achieve the ambitious goal they set for themselves last year: removal of barriers to trade and investment by 2020, with advanced economies to lead the way in 2010.

In the days ahead of the summit, the Tokyo government was struggling to overcome sensitive political obstacles to that aim. The chief problem was Japan's own reluctance to expose Japanese rice farmers, still a potent domestic lobby, to free trade by 2010. China, South Korea, and Taiwan shared the same reservations – small compensation for Japan's embarrassment as Apec chairman.

Failure to resolve the Asian farm trade dispute, reminiscent of the agriculture rows that nearly torpedoed the Uruguay round of the General Agreement on Tariffs and Trade, would clearly harm Apec's credibility. But, setting its troublesome farmers aside, Japan's trade and investment has made a decisive contribution to a growth in trade by Apec's Asian members which has far exceeded overall growth in world trade over the past decade. This has provided the incentive for the more successful Asian economies to seek further trade liberalisation, to support their own export expansion.

A flood of Japanese private sector investment, swollen by the largest foreign aid budget in the world, has washed over the region in the past decade, as Japanese companies establish a beach-head in Asia. Now Japan's market share outstrips US and European competitors in east Asia in several key sectors such as cars, consumer electronics and industrial machinery. Asia overtook the US as Japan's largest export destination in 1991 and in 1993 Japan's trade surplus with the region surpassed its surplus with the US for the first time. Ten years ago, Japan exported a third more to the US than to Asia; now the balance is the other way.

Japanese direct investment in the rest of Asia has followed a similar pattern, multiplying more than three-fold from \$2.3bn in 1986 to \$9.3bn in 1994; roughly one-fifth of Japanese investment worldwide. In the early 1980s, Japan and the US had the same level of investment in east Asia. Now, the stock of Japanese investment in the region is roughly double that of the US.

Japan's turn towards Asia has been accompanied by a deepening integration between the region's previously disparate economies. "There is growing interdependence, not just between Japan and Asia, but also, for the first time in their history, between Asian economies themselves," says Mr Kazuo Ogura, Japan's deputy finance minister.

Asian countries' sales to each other – including Japan – climbed from 30 per cent of their total exports to nearly 45 per cent in the decade to last year, according to the Nomura Research Institute. Their exports to the US ebbed from just under 35 per cent to 25 per cent over the same period.

A mixture of factors is at work in driving Japan's economic assault on its neighbours; east Asian demand for consumer products and industrial plant, political and economic constraints on growth in Japanese exports to the US, and the fresh pressure on Japanese industry, brought by the latest rise in the yen, to seek cheaper production abroad.

Japan's economic march into Asia comes at a time when the political balance of the region is also changing, in a belated reaction to the collapse of the Soviet Union four years ago and in an early response to China's growing economic power. Tokyo is still adjusting to the end of the Cold War, which has diminished, in many Japanese minds, the need for a military alliance with the US. This change has paved the way for a new generation of assertive politicians – such as Mr Ryutaro Hashimoto, the recently elected president of the Liberal Democratic party – to reappraise Japan's US links in a more neutral light.

"For the past four decades, Japan's Asian policy has been a part of the US's Asian strategy," says Mr Ogura. "It is high time to for us to think about being independent and yet complementary."

Mr Hashimoto's generation is, by the same token, more active than its predecessors in nurturing an ambivalent China's transition to an open economy. Here, says Mr Ogura, Apec has a vital role as the only forum where the US, China, Taiwan and Hong Kong can meet. "The best way to stop China becoming a threat is to keep the door always open; never to be hostile. Here Apec is a most effective tool," he says. And yet rising to the Asian opportunity is fraught with political problems for Japan, highlighted this year by painful memories recalled by the 50th anniversary of the end of the Pacific war.

Some of the older delegates around the Apec table tomorrow may recall that this is the most important meeting of Asian powers chaired by Japan since 1943, when former prime minister Hideki Tojo convened members of the Greater East Asia Co-prosperity Sphere to subscribe to a declaration supporting Japan's war aims.

Today, Japan's relations with the neighbours it occupied more than half a century ago continue to be shadowed by what is seen as a lack of repentance. The past four Japanese prime ministers have vied with each other to deliver apologies for the wartime past. Yet many politicians and their voters feel less than apologetic, as shown in the ambiguous parliamentary resolution of regret produced by the Diet to mark the war anniversary.

Thus, Japan's post-war reluctance to take a regional lead is matched only by some of its neighbours' continuing distrust of Tokyo. But if the past obliges Japan to tread cautiously in Apec and especially in Asia, so does the present.

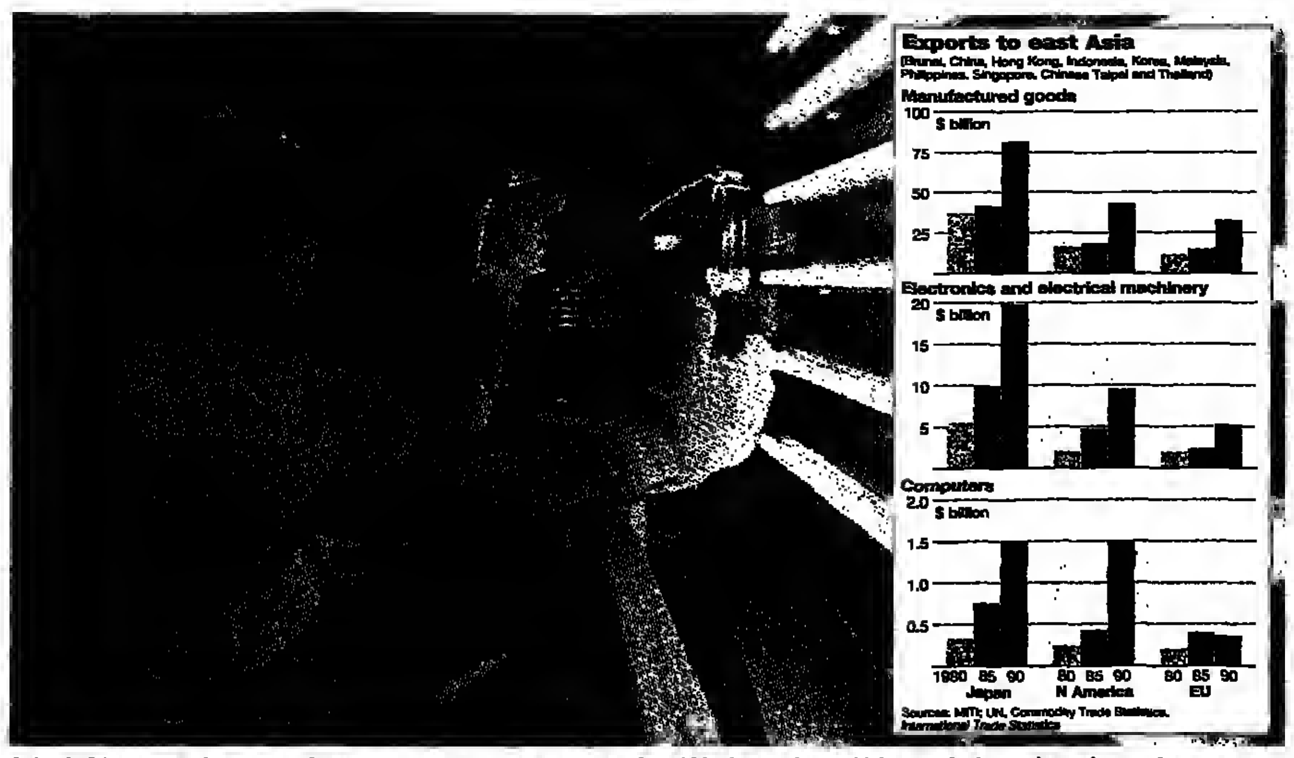
Government officials are acutely sensitive of the need to avoid the spread of trade tensions over Japan's trade gap, the source of its recent bitter rows with the US. It runs a surplus with all other Apec members except for Australia and Brunei, and is the only member of the group with that qualification.

So far, trade within Apec has grown fast enough to defuse serious resentment of Japan's pre-eminence, with the exception of the occasional grumble from South Korea. But Japanese officials do admit that their surplus, plus their own rice farmers' awkwardness, makes them reluctant to cajole others into pushing ahead to realise Apec's free trade vision.

Moreover, the Japanese government remains divided on what Apec's role should be. The Ministry of International Trade and Industry has been an enthusiastic supporter, unsurprisingly since Miti originally suggested a Pacific rim economic grouping to a visiting Australian trade minister in 1987, leaving it up to former Australian prime minister Bob Hawke publicly to launch Apec in 1989. Miti saw the forum than as a regional free trade alternative at a time when the Uruguay round of world trade talks was in trouble, and useful, in the longer term, to anchoring the US into Asia.

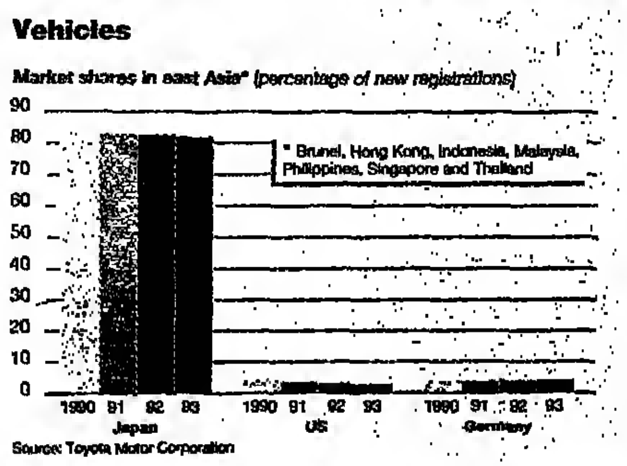
The Foreign Ministry, however, was initially reluctant to back anything that might cut across a more local regional body – the Association of South East Asian Nations – which is strongly supported by the ministry. That stance has now changed, although the foreign ministry continues to emphasise that Apec should be merely consultative – Asean style – while Miti officials lean the other way, towards free trade rules, to ensure clarity.

This lasting ambiguity over Apec – and more specifically over Asian policy – ensures that, despite its great economic power, Japan's role in Asia is for the foreseeable future limited to middleman rather than leader.



A flood of Japanese private sector investment, swollen by the largest foreign aid budget in the world, has washed over the region, as Japanese companies establish a beach-head in Asia: A new \$211m factory in Singapore operated by Japanese-owned Asahi Techno Vision *Picture: Reuter*

Vehicles



Production Editor: Philip Sanders

■ **Asia Pacific Economic Co-operation group:** by Guy de Jonquières

A test of Japan's resolve

The summit brings together a highly diverse group of countries accounting for roughly half of global economic output and trade

A year ago, leaders of 18 Pacific Rim economies pledged in Bogor, Indonesia, to free all trade in the region by the year 2020. This Sunday they are scheduled to meet again in Osaka, Japan, to decide how to realise that ambitious objective.

The forthcoming summit of the six-year-old Asia Pacific Economic Co-operation forum is the most important gathering of foreign heads of state and government that Japan has hosted for more than half a century.

As such, it offers Japanese *foreign policy an ideal* opportunity to stake out a clearer regional leadership role. How successfully it is seized will pose a test of Japan's resolve in overcoming political obstacles at bome, as well as of its talents for creative international diplomacy.

A newly-published book* on Apec casts the challenge in stark terms: "For Japan, Osaka presents a watershed for its future. It will test whether Japan will be in renawal or decline in the emerging Asia Pacific renaissance."

The summit brings together a highly diverse group of countries accounting for roughly half of global economic output and trade. They include some of the world's richest ecooomies, such as the US and Japan, and some of its poorest, such as the Philippines, Indonesia and China.

Apec has also made bedfellows of governments – most obviously Beijing and Taipei – which are normally bitter political adversaries, and of the US, Japan and China, whose bilateral disagreements have recently provoked some of the world's most turbulent trade conflicts.

As these contrasts suggest, individual Apec members' motivations and interests vary widely.

The US views Apec ss a vehicle for exploiting fast-growing markets in east Asia, and as a forum in which trade liberalisation can be agreed faster – and in which Washington can command greater influence – than in the World Trade Organisation.

Conversely, many Aslan countries which depend heavily on exports to the US view Apec as a way to lock Washingtoo into an international dialogue at a time when its commitment to multilateralism seem to be wavering. Some, such as Indonesia and the Philippines, have also been encouraged by Apec to accelerate unilateral liberalisation efforts.

Malaysta, by contrast, remains equivocal about its Apec membership. It bss devoted much energy to pushing for an East Asian Economic Caucus, a regional bloc intended explicitly to withstand US domination.

The idea has won little support so far and would be particularly unwelcome to Japan which values Apec above all as a way of maintaining long-standing links with the US while building bridges to the rest of Asia.

For China, Apec offers the chance to be represented in a prominent international forum, while for Australia and New Zealand it is a means of forging an identity of interests with Asian neighbours.

Apec acquired real political impetus at its first summit, in Seattle two years ago, which was inspired by collective anxiety that the Uruguay Round of the General Agreement on Tariffs and Trade negotiations were on the brink of failure.

By making common cause, the Apec leaders aimed to pressure Europe into oegotiating more constructively, and to line up an alternative to the multilateral trade system in case the Uruguay talks collapsed.

The momentum generated in Seattle carried over to last year's Bogor summit, where the leaders surprised themselves by agreeing to lift all regional trade barriers by 2020, and by 2010 in advanced economies.

Since then, some progress has been made on practical trade facilitation measures, notably through an agreement to standardise customs checks. The task in Osaka will be to map out a formal blueprint for schieving completely frae trade.

Apec expert advisers recently called on the leaders to make a "downpayment" on the liberalisation process by agreeing to implement in half the time planned their undertakings in the Uruguay Round. But most countries are expected to do little more than list policy measures announced since Bogor.

There is even a risk that some countries may retreat *from a comprehensive* approach to liberalisation. The most notable example is Japan which cannot guarantee to open its rice market fully by 2010, when it is supposed to eliminate all its trade barriers within Apec.

China, Korea and Taiwan also have problems with agri*cultural trade.*

Other unresolved pre-summit questions include how to assess the comparability of liberalisatioo steps by individual countries, and whether the benefits should be extended fully to other Apec members. The latter point particularly concerns the US. Even though Mr Clinton pledged in Bogor to open its market to other Apec members by 2010, he lacks authority to grant China Most Favoured Nation trade status, which must be renewed annually by Congress.

Against this background, it seems unlikely that the Osaka summit will be swept along by the collective euphoria which gripped the Seattle and Bogor meetings. It is even less realistic to expect the leaders to assemble all the elements needed to fulfil their grand vision. The challenge this time, rather, will be to generate just enough political momentum to keep the enterprise moving forward. For none of the participants is that challenge stiffer than for Japan. While it cannot ensure the success of the talks, it is acutely sensitive to tha risk of being blamed in tha event of failure.

**Asia Pacific Fusion, by Yoichi Funabashi. Institute for International Economics, Washington DC.*

■ **The spread of Japanese economic ideas:** by William Dawkins in Tokyo

Radical shift towards east Asia

Japan's east Asian trade surplus exceeded that with North America for the first time in 1993, and the gap continues to grow

Japan's trade and investment structure has shifted radically towards east Asia in the past decade – both as a consequence of, and contribution to, the region's fast economic growth.

Japanese companies hava established dominant positions in the sectors in which they *are traditionally strong* – cars, electronics and machine tools – in some of the world's fastest-growing markets.

This will, some economists predict, give them great competitive strength not just in Asia, but in western markets supplied from those low-cost Asian plants. "It is increas*ingly clear that the mega-mar*kets of east Asia are very quickly becoming Japan's direct investment priority," says Dr Kenneth Courtis, senior economist at Deutsche Bank Capital Markets (Asia).

The latest wave of Japan's economic assault on Asia dates back 15 years, but was given fresh impetus by the round of yen appreciation that followed the Plaza Accord, 10 years ago, to curb the dollar's value, and another push by the yen's rise to new records over the past recession.

Its trade surplus with east Asia – including South Korea, China, Taiwan, Hong Kong, Indonesia, Malaysia, Philippines, Singapore and Thailand – has tripled since the turn of the decade to \$62.2bn in 1994.

Over the past 10 years, Japan's trade with its Asian neighbours has grown from 27 per cent to 37.6 per cent of the total, while its trade with the US has slipped slightly to 27 per cent, a clear sign of how its economic priorities have changed.

Japan's east Asian trade surplus exceeded that with North America for the first time in 1993, and the gap has continued to grow. Japanese exports to east Asia have doubled to \$152.8bn over the past six years. Its exports of manufactured goods have leapt well ahead of North America and Europe and Japan positively dwarfs its rivals in the region's car and electronics markets.

Its dominance in these sectors may even increase as Japanese companies increasingly tailor products to local tastes. Nissan, for example, launched a locally made car specifically designed for Asian drivers two years ago and Honda recently announced that it might follow suit.

Japan's imports from east Asia, much of which come from its own plants there, have doubled over the past eight years, to \$90.6bn – a big factor in the decline of Japan's consumer prices. Until recently, raw materials formed the majority of Japanese overall imports. But now the flood of Asian-made consumer goods such as televisions, of which Japan became a net importer in 1993 for the first time, has pushed finished goods up to 60 *per cent of Japanese imports.*

The axpansion in Japan's Asian trade is only part of its growing economic integration with the region. The advance has been on a broad front, including official development assistance, where the region has for many years received about 60 per cent of Japan's foreign aid budget – a total of \$13.3bn in 1994. Aid, education, and technical assistance has paved the way for the private sector to follow with corporate investment.

Japan is by far the largest single foreign direct investor in the region as a whole

Not surprisingly, Japan is by far the largest singla foreign direct investor in the region as a whole – even if not in some individual countries. Corporate Japan bought \$9.3bn of new plant there last year, bringing its stock of investment to \$74.7bn; roughly double the US level, according to official data.

Japan's flexible mixture of government intervention and free markets also provides one of the region's most imitated economical models. This runs from the parallels between South Korea's *chaebol* corporate families and Japan's *keiretsu*, to the eagerness with which Chinese economic planners are studying Japan's postal savings system as a method of channeling private savings to public works and favoured industries.

Japan's Asian onslaught invites the question of whether the region will see the emergence of a Japan-dominated economic bloc. The evidence clearly points the other way. Japan's economic clout in the region is far smaller than the size of its trade would suggest.

For one thing, Japan's trade and investment with Asia has accompanied and helped to push forward an even faster growth in trade and investment between other coontries in the region.

In the second half of the *1980s, other east Asian coun*tries – led by the "tiger" economies of Singapora, Taiwan, Hong Kong and South Korea – were, as a group, the leading investors in the region. During that period, 60 per cent of regional investment came from Asian neighbours, not from Japan, according to United Nations figures.

Singapore and Hong Kong were the largest investors in Malaysia during that period; Hong Kong was the top investor in Thailand. The biggest investor in China, the region's fastest-growing investment destination, is Hong Kong.

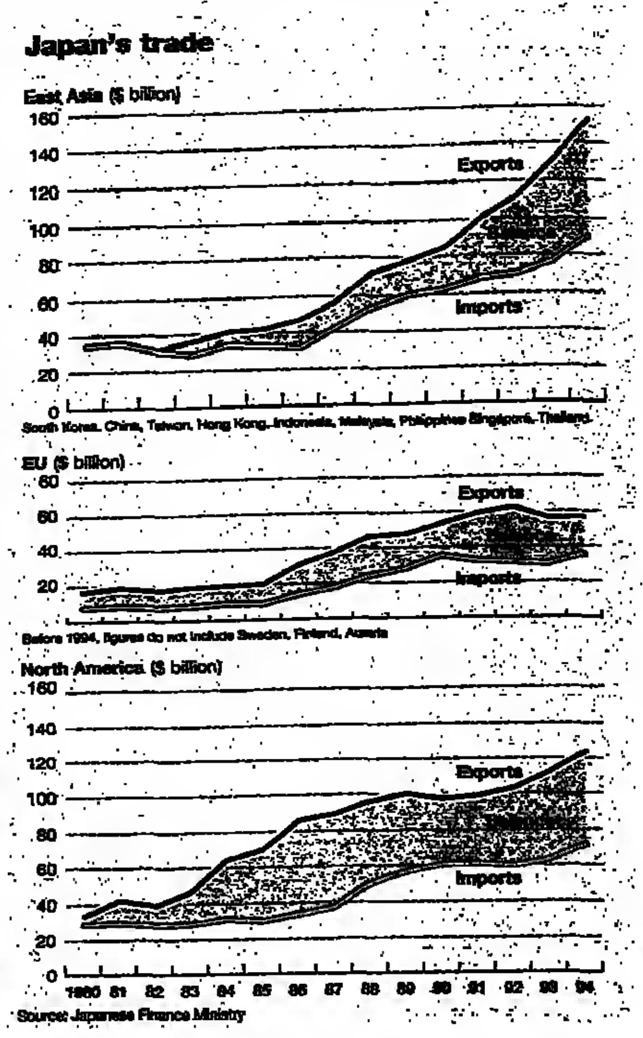
Trade *follows* a similar pattern. The proportion of east Asian exports sold to tha four tiger economies has risen from 15.1 per cent in 1985 to 21 per cent last year. The tigers' sales to the rest of east Asia rose even faster over tha same period, from 23.2 per cent of the rest of the region's export purchases, to 37.6 per cent of the total.

For Japan, this is an entirely welcome development. "There is a growing interdependence not just between Japan and Asia, but also between Asian economies themselves. This means Asian growth will become increasingly self-sustaining," says Mr Kazuo Ogura, Japan's deputy foreign minister. Ha estimates that two-thirds of Asian economic growth this decade has been self-generated, with just one third from export sales, one of the reasons why the stronger Asian economies round the Apec group's negotiating table this week have a self-interest in reducing barriers to trade with each other.

Equally, there are strong political constraints on any Japanese economic dominance in the region. "Asian countries are looking at this wall of Japanese money coming their way and asking themselves when the US and Europeans are going to come in to provide a balance," says Dr Courtis. When the 18 members of the *Asia Pacific Co-operation* Council begin their annual meeting under Japan's chairmanship in Osaka tomorrow, the host will be the only country to be running a trade surplus with all but two – Brunei and Australia – of the others.

This year's 50th anniversary of the end of the second world war was another, deeper, reminder of the main reason why Japan still has some way to go before it can wield influence commensurate with its economic weight in Asia.

A passionate political battle to produce only a watered-down parliamentary statement of regret last summer, and a series of remarks by senior politicians indicating absence of repentance for Japan's wartime behaviour in Asia have left a lingering mistrust among its neighbours. As an economic power, it is condemned to move on tip-toe in the region.



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■ **Malaysia:** by Kieran Cooke in Kuala Lumpur

Relationship has changed

Japan has come to play a pivotal role in Malaysia's ambitious plans to be a fully industrialised country by 2020

Matsuahita, the Japanese electronics and electrical conglomerate, considers Malaysia as tts second home. The reason is obvious.

Matsushita has shifted many of its operations out of Japan into factories in the Klang Valley, near Kuala Lumpur. in total ebout 30,000 people are employed at plants making TV sets, electrical appliances and other products. Turnover at Matsushita's Malaysian operations amounts to nearly M$9bn ($3.6bn) a year, equivalent to almost 5 per cent of the country'a gross domestic product.

While Matsushita has the largest presence in Malaysia, scores of other Japanese companies have set up operations locally. When Malaysia first opened up to foreign investment more than 10 years ago, it was the big corporations such as Sony and Sharp that acted as the industrial stormtroopers, setting up mostly labour-intensive assembly operations.

Now, smaller Japanese companies have arrived to be vendor suppliers to the larger corporations. The work content of the big companies has also changed: in many cases Malaysia is no longer merely a link in a Japan-controlled assembly line. Now, many local Japanese companies act more as autonomous units, producing their own goods and marketing them to the world – or selling them back to Japan.

Japan's overall economic relationship with Malaysia has also cbanged significantly in the past 10 years. In the early 1980s, oearly 90 per cent of Japanese imports from Malaysia consisted of primary commodities such as wood, rubber and tin. Last year, primary commodities – mainly oil, gas and wood – amounted to only 36 per cent of total imports from Malaysia.

The focus has now shifted to machinery and electrical and electronics products. Malaysio's exports to Japan of these goods increased by more than 40 per cent each year from 1988 to 1994. Japan is Malaysia's largest trading partner, accounting for 19 per cent of the country's total external trade in 1994. A great deal of this trade is due to trading between various segments of the Japanese multinationals.

Japan has come to play a pivotal role in Malaysia's ambitious plans to be a fully industrialised country by the year 2020. To achieve its aim, Malaysia continues to need large amounts of foreign investment.

Over the last eight-year period, Japan has been the biggest investor in Malayaia. According to Malaysian Finance Ministry figures, approved Japanese investment has gone up nearly nine times since 1987. In the 1981-1987 period, Japan invested a total of M$2.1m in Malaysia. In the 1988-1994 period, total Japanese investment in Malaysia rose to M$17.9bn.

Although Jnpanese investment levels have dropped from their peak in 1990, a strong investment flow continues. Many Jopanese companies have selected Malaysia as a regional production base.

Mr Kumitake Ando, executive vice-president of the Sony corporation, was in Malaysia earlier this year. He said Sony intended to cut its Japan-based production from 55 per cent of the total at present to 20 per cent by 1997. "There will be a gradual shift of the design development to Malaysia, especially production technology, once the wheels of change are set in motion," said Mr Ando.

While the surge in Japanese corporate invsstment has brought considerable benefits to the Malaysian economy, it has also caused problems. Many Japanese companies still tend to source their plants and machinery as well as intermediate manufactured goods from parent and associate companies back home.

The surge in the value of the yen has added to Malaysia's import bill. Although the value of Malaysia's exports to Japan has been increasing by an average of 11 per cent a year since 1988, the value of imports from Japan has gons up by nearly three times that amount. As a result, there has been a dramatic increase in Malaysia's trade deficit with Japan – from M$0.8bn in 1988 to M$23bn in 1994. Last year, imports from Japan accounted for 27 per cent of Malaysia's gross importe. Exports to Japan only accounted for 12 per cent of Malaysia's gross exports.

Malaysia's current account deficit has widened considerably over the past two years and is forecast to reach M$18bn by the end of 1995. That figure causes concern to many analysts who feel the economy is in danger of overheating.

While a deficit in the services account makes up a substantial part of the current account deficit, Malaysia's merchandise account is also now in deficit. The government says more goods must be sourced at home.

> Many of the Proton's high-cost inputs are still imported from Japan

But Japan's companies are accused of doing very little. Maleysia's leaders repeatedly say the Japanese must show a greater willingness to transfer technology and so increase the value added of items produced in the country. They say UK, US and German concerns are far more enlightened when it comes to technology transfer.

"The Japanese treat Malaysia like an offshore production base," says one senior Malaysian trade official. "They try to sell us old technology. All the time they have to be pressured to put our people into positions of responsibility. Western companies are far more open."

Despite their pre-eminent position as investors in Malaysia, Japanese companies are also said to have created few linkages with the domestic economy. While low-cost items might be manufactured locally, most high-cost, technology-intensive material still comes from Japan, creating trade imbalances.

Proton, the Malaysian national car, is manufactured in partnership with Mitsubishi. The Proton project was started 10 years ago. Although tha domestic content of the Proton is now said to be more than 70 per cent, many of the high-cost inputs, such as the transmission system, are still imported from Japan. Proton recently signed an agreement with Citroën of France to co-operate in engine manufacturer – a move seen as a rebuff to the Japanese.

Malaysian officials also say Japanese companies should make more efforts to integrate with the local capital markets – raising funds locally and listing their local units on the stock exchange.

Mr Anwar Ibrahim, Malaysia'a deputy prime minister, spoke of the need for the Japanese to become more involved in Malaysia's economy oo a recent visit to Tokyo. "A new relationship that is not merely profit-driven must emerge," said Mr Anwar. "Japan must come to realise our needs as well as its own."

■ **China:** by Tony Walker in Beijing

Strong growth continues

Japan's growing involvement in the Chinese economy is reflected in both trade and investment figures

Sino-Japanese trade and investment continued to grow atrongly in the first nine months of this year, reflecting the momentum generated by the surge in new commitments made in the 1992-93 period of rapid growth.

But Japanese trada experts predict some tailing off in new investment in the next year or so as companies take stock of an evolving regulatory environment, and opportunities beckon elsewhere in Asia.

Mr Tomozo Morino, chief representative in Beijing of the Japan External Trade Organisation (Jetro), said that Japanese companies were particularly concerned about sudden changes in regulations.

Ha referred to the progressive reduction over the past two years of working hours from 48 to 40. Companies were given barely one month's notice of the recent decision to reduce the working week to 40 hours, for example.

Japanese companies were also sceptical about current Chinese attempts to persuade them to shift some of their new investment to China's hinterland where economic davelopment is lagging far behind coastal regions. Among coocerns was tha backward nature of infrastructure in China's inland regions where the road and rail systems are heavily overloaded. Moving goods from the interior through the country'a congested ports was often a slow process.

But a recent Jetro survey, based on a sample of the approximately 10,000 Japanese enterprises in China, had found that more than 50 per cent were relatively satisfied with their investments – although many companies had been coy about responding to the questionnaire.

Japan'e growing involvement in the Chinese economy is reflected in both trade and investment figures. Indeed, a growing proportion of exports from China to Japan are produced in Japanese-invested factories.

In the first nine months of this year, China's exports lo Japan jumped 33.8 per ceot over the same period last year to $25.8bn. Imports ware np 10.3 per cent to $15.3bn, giving China a surplus, according to Japan's Ministry of Finance, of $10.5bn.

China's own customs statistics tell a different story, reporting that in the nine mooths to September, Sino-Japanese trade was virtually in balance. The discrepancy is attributable to different ways of classifying items ahipped through Hong Kong, one of the main conduits for China's exports from its prosperous southern regions.

> The largest category of Chinese exports to Japan is textiles

Japan's differenca with China over the trade figures is similar to the Sino-US disagreement on same issue. Both Japan and the US have set up working groups with China to try to find a common approach to interpreting the trade figures. This is more pressing in the US case because China's trade surplus, which is expected to reach $38bo this year according to US figures, has become a domestic American political issue. In Japan, the trade gap with China, has not occasioned much comment.

Easily the largest category of Chinese exports to Japan is textiles – io 1994, exports totalled $9.9bn, up 132.3 per cent on 1993 – and this is causing some friction with domestic producers who are demanding the imposition of stricter quotas. Other important Chinese exports include foodstuffs, raw materials, coal, oil and manufactured goods. Imports include machinery items, steel and vehicles.

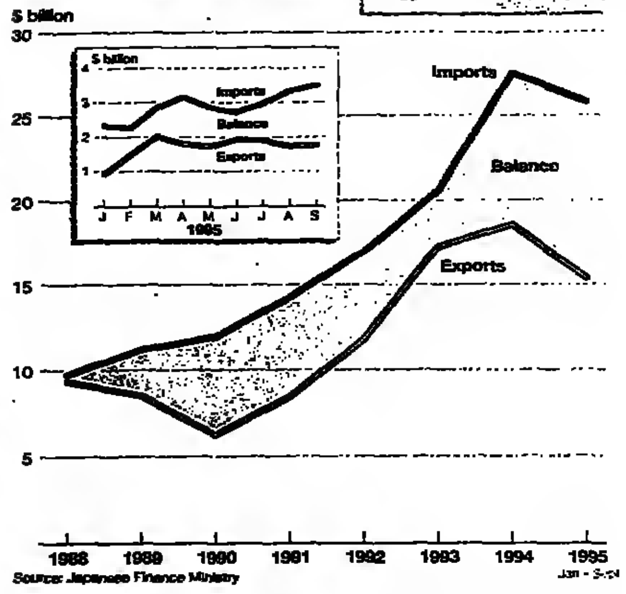
Actual, as opposed to contracted, Japanese investment in China rose strongly last year to $2.5bn, an increase of 51 per cent on the year before. At the eod of 1994, Japanese direct investment in China totalled $8.7bo, according to Japan's Ministry of Finance. This places Japan fourth in the table of investors in China – behind Hong Kong and Macao, Taiwan and the US, and ahead of Singapore, South Korea and Britain.

Companies, which bave announced new projects this year read like a Who's Who of the corporate Japan. They include Matsushita which is establishing a fectory in Guangzhou to prodoce 300,000 air conditioners a year and one million compreasors; NEC which is investing $2.6m in Beijing to build an assembly line producing semi-conductors; and Sanyo Electronics which is establishing a manufacturing facility in the Shenzen special economic zone supplying compact disc components.

Japanese investments in China are also beginning to figure more largely in Japan's global investment portfolio, although they still represent a very small percentage of the total. Investment in China accounts for just 1.9 per cent of the $463bn invested by Japanese companies abroad compared with the US 41.9 per cent, or $194bn per cent of the total, 7.3 per cent for the UK, or $33.8bn, and 5.2 per cent for Australia, or $23.9bn.

But in fiscal 1994, Japanese investmeot in China accounted for 6.2 per ceot of the global figure. China's share of total Japanese investmeot abroad is certain to continue to rise.

Japan's trade with China



Source: Japanese Finance Ministry

■ **South Korea:** by John Burton in Seoul

Focus on service industry

During the first nine months of this year, Japan ranked third in Korean investments behind the US and the European Union

The towering Lotte Hotel in central Seoul is the single largest Japanese investment project in South Korea at $669m. The hotel also provides a good example of the state of Japanese investment there.

The primary focus of Japanese investment in Korea has been on the service industry, particularly hotels, instead of manufacturing.

The Lotte group has been by far the single largest Japanese investor in Korea, accounting for at least a quarter of the $5.2bn that Japan has invested in its former colony since 1965, when diplomatic relations were established.

Although Japan is officially regarded as largest foreign investor in Korea during the past three decades, accounting for 39 per cent of total investment, the dominance of Lotte has artificially inflated the size of the Japanese figure.

This is because Lotte is as much a Korean conglomerate as a Japanese one, having been established in 1967 by a Korean businessman living in Japan. Lotte, which has interests in the food, retail and hotel sectors, is also Korea's ninth-largest domestic group.

Subtract Lotte's contribution to Japanese investment and the result shows that other Japanese companies have invested less in Korea since 1965 than the $4.4bn they poured into China last year alone.

Moreover, the Lotte Hotel was built in the 1970s, the peak of investment activity in Korea by Lotte and other Japanese companies. Japanese corporate interest in Korea has subsided since then. During the first nine months of this year, Japan ranked third in Korean investments at $296m, behind the US at $513m and the European Union at $308bn.

"Japan has been overtaken by the US and the EU because Japan invested earlier in Korea than the others. Japanese companies are less enthusiastic about Korea than American and European companies because they had bad experiences 10 or 20 years ago," said an official at the Japan External Trade Organisation (Jetro).

"Many of them withdrew from Korea and are cautious about returning. They want to invest in China and south-east Asia instead of Korea," he added.

Japanese companies are responding to many of the same factors that have discouraged other foreigners from investing in Korea.

Korea has among the highest wage and land costs on the Asian mainland. Its subcontracting network is considered inadequate. Some key industrial sectors have been closed to foreign competition. Protection of intellectual property rights has been a main concern.

In addition, Japan faces particular obstacles because of the strong anti-Japanese sentiment in Korea that resulted from Tokyo's harsh colonial rule of the Korean peninsula between 1910 and 1945.

An import ban on more than 250 Japanese products imposed since the 1970s has discouraged Japanese companies from investing.

Fierce labour conflicts between Japanese managers and Korean workers in the late 1980s, when trade union militancy was strong, has also damaged the reputation of Korea among Japanese investors.

The strong yen has meant that Japanese industrial companies operating in Korea have suffered shrinking profits in recent years because the lack of a proper subcontracting network has forced them to import expensive Japanese parts.

The service industry is considered a more lucrative area for investment by the Japanese than manufacturing because it avoids some of these problems. Hotels have become a main focus of Japanese investment because of the large number of Japanese tourists who visit Korea.

But there is little incentive for Japanese manufacturers to enter Korea to win market share because Korean companies are already heavily dependent on imported Japanese machinery and industrial components.

This has become a main source of worry for officials in Seoul because Korea has maintained a persistent trade deficit with Japan since 1965 due to its need to import capital goods.

Korea's trade deficit with Japan this year is expected to reach $16bn, although Korea is expected to have an $8bn trade surplus with the rest of the world.

Korea is now trying to woo Japanese investment, particularly in the areas of machinery and industrial parts. It recently announced that it was setting up two special investment zones near the cities of Kwangju and Chonan for Japanese companies.

Incentives on offer include tax breaks, relaxed rules on financing, special labour provisions, and low-cost land. However, the programme has so far failed to achieve much success, with few takers.

In an effort to improve bilateral economic co-operation, Seoul has promised to halve the number of banned Japanese products by 1998. Japanese general trading houses have been allowed into Korea, although their activities are limited to exporting Korean products. Industrial sectors of importance in Japan, such as construction, are scheduled to be opened.

But prospects for attracting Japanese investment, at least for the immediate future, have been harmed by a recent cooling in diplomatic relations between Seoul and Tokyo as politicians from both countries engage in an emotional debate about Japan's colonial past in Korea.

Korean and Japanese executives believe that the best way to promote Japanese investment in Korea may be to encourage links between individual companies rather than trying to achieve results on a broad national level.

Nippon Electronics and Toray Industries, for example, have made the biggest Japanese investments this year by setting up joint ventures with Samsung Electronics.

■ **Thailand:** by Ted Bardacke in Bangkok

Strong yen spurs investment drive

The current wave of investment is qualitatively different from the two previous big inflows of Japanese capital

Japanese companies, a fixture in Thailand for three decades, are once again investing heavily in the country and deepening their dominance of Thailand's manufacturing sector. Already the largest foreign investor in Thailand, Japanese companies will invest a projected $800m in 1995, about half of all new foreign investment in manufacturing industries this year.

Japanese banks have also emerged as important participants in the rapidly growing offshore lending market, offering high-volume low-margin loans rarely seen in the clubby world of Thai banking.

Keen to lend to clients with whom they have established relationships back in Japan, and to the Thai joint-venture and supplier partners of those clients, Japanese banks are set to win at least three of the seven new licences to open full branches in Thailand to be awarded next year.

The current wave of Japanese investment is qualitatively different from the two previous big inflows of Japanese capital. In the mid-1960s, Japanese companies set up factories to assemble previously imported consumer durables for the Thai market, such as white goods and vehicles, using parts imported from Japan. Textile companies also set up some of Thailand's first non-agricultural export operations.

The next wave of investment occurred in the mid- to late 1980s as the yen experienced its first significant appreciation. Japanese companies rapidly increased capacity in Thailand, still mostly importing parts but this time assembling goods for export back to Japan. Production lines also expanded into home electronics and Japanese vehicle manufacturers, who dominate the Thai market with 90 per cent of all vehicle sales, began in source some parts locally. High levels of capital goods imports meant that exporting to Japan and sourcing some inputs locally did not put a dent in Thailand's chronically large trade deficit with Japan, a deficit that amounts to nearly Bt200bn annually.

A main reason for the current investment drive continues to be the strengthening of the yen. Moves in source more products locally is also spurring new Japanese investment. According to the Japanese External Trade Organisation (Jetro), already 44 per cent of the parts used by Japanese companies in Thailand are sourced locally and 70 per cent of the those companies, the highest level among member countries of the Association of South East Asian Nations, say they have plans to increase local sourcing.

There are some added factors:

- Thailand has proven itself, despite continual political turmoil, to have a high level of policy continuity. "The ara always coups and unstable government but the investment climate has always been suitable for long-term investments," says Mr Takao Yamataki, a Japanese specialist at Thailand's Board of Investment.
- As trade tariffs begin to fall within south-east Asia, the Japanese are increasing looking to Thailand as a base to produce for the rest of Indochina and Asean. Toshiba, for example, now exports refrigerators and air conditioners to Vietnam and Indonesia.

"Our Thai facilities are among the largest production factories in Asia and enhance our cost competitiveness in the world market as an export base. Locating facilities within the region allows us to better serve the Asian market," says Mr Yasuo Morimoto, Toshiba's corporate representative for Asia.

- After a long presence in Thailand, Japanese companies are now relatively comfortable operating in joint ventures with Thais, as is often necessary for legal and cultural reasons. Joint ventures will become increasingly important as big Japanese companies try to convince their small and medium sized parts suppliers to set up operations in Thailand.
- For those many small Japanese companies who are uncomfortable operating in a joint venture, the Thai government recently waived foreign ownership restrictions for new operations in certain geographic zones where the government is trying to raise the standard of living.
- Availability of capital from a plethora of Japanese banks who have made a real impact since being granted offshore licences in late 1993. "The Japanese economy is not so active but here we find it very interesting. There is more chance to make new business and more chance to make profits," says Mr Toshimitsu Imai, deputy general manager of Sakura Bank in Thailand.
- Thailand's big and profitable domestic market helps smooth out the fluctuations of the export industry. "Margins are very high here. If I haven't met my export targets I can always get rid of my inventory via the domestic retailers by offering them a discount and still make a profit," says the marketing manager of a Japanese consumer goods company.
- A move by Japanese companies into basic industries, such as steel, iron and petrochemicals which will provide backward linkages for several industries.


Sogo Japanese department store in Thailand — Picture: Glyn Genin

Can the honeymoon between Thailand and Japanese manufacturers continue? Representatives of Japanese businesses in Thailand say two important problems exist: labour costs are rising without a commiserate level of productivity gains; and the massive amount of red tape shows few signs of dissipating.

Finding skilled labour and people qualified to staff middle management positions is very difficult in Thailand, for foreign and Thai businesses alike. Japanese have a particularly difficult time because of a language barrier (Japanese and Thais generally communicate with each other in English) and because of the Thai tendency to job-hop, something the Japanese find alien.

"We give people high salaries, pay to train people ourselves and then they job-hop," says Mr Hiroyuki Maruko, president of the Japanese Chamber of Commerce in Thailand. "It is very frustrating."

In the early days of Japanese investment in Thailand, the lack of skilled workers was not a problem. Wages for unskilled Thais were low and the country basically was seen as a place to do assembly. But wages for unskilled workers are also rising; Japanese companies report that wages for both skilled and unskilled workers in Thailand are now the highest in Asean with the exception of Singapore.

From a Japanese business perspective, Thailand risks pricing itself out of the assembly market without being able to make a complete leap into more value-added industries and services.

Significant changes to Thailand's Alien Business Law and customs procedures are also necessary, say Japanese businessmen. Limits on having just five expatriate employees per division and the costs involved in complying with labour and customs laws are cited by Jetro as the number one complaint of Japanese companies operating in Thailand.

"Thailand needs to relax some controls and laws," says Mr Maruko of the Japanese Chamber. "If they do that they can become a hub, an important strategic base for the rest of Indochina."

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■ **Hong Kong:** by Louise Lucas in Hong Kong

Investments total $13.9bn

Many Japanese companies in Hong Kong prefer to equip their offices with purchases from the home country

When business confidence in Hong Kong plumbed new depths in the wake of the bloody crushing of the pro-democracy protests in Tiananmen Square, Beijing, in June 1989, Yaohan International, the Japanese retail giant, announced plans to shift its headquarters to the beleaguered colony.

The retailer, which is now celebrating its tenth year (and store) in Hong Kong, is just one of an estimated 2,000 Japanese companies operating in the colony. Japan is the second-biggest investor in Hong Kong, accounting for a cumulative $13.9bn, and the second-biggest import supplier after China.

Last year, Japan was the leading supplier of Hong Kong's imported capital goods and the second-largest supplier (after China) of raw materials and consumer goods.

The trade and investment rankings have at least some correlation: even today, many Japanese companies in Hong Kong prefer to equip their offices with purchases from the home country, be it the ball-point pens used by bank tellers, or prettily-wrapped delicacies on sale at Yaohan or the civil engineering technology utilised by contractors at the site of the new airport on Lantau island.

But the relationship between imported Japanese goods and Japanese direct investment into Hong Kong is nowhere near as intense as it was even a decade ago. Mr Masaru Inoue, director-general of the Japanese External Trade Organisation (Jetro) in Hong Kong, says most subcontracting and supplies are now procured locally, rather than from Japan.

The trend towards "localisation" is most marked in the field of manufacturing, which has largely migrated across the border to southern China. Mr Inoue says that while Japanese manufacturers such as Toshiba and Canon first used Shenzhen, the special economic zone across the border from Hong Kong, for assembly lines, they now buy some 70 per cent of parts and accessories there too.

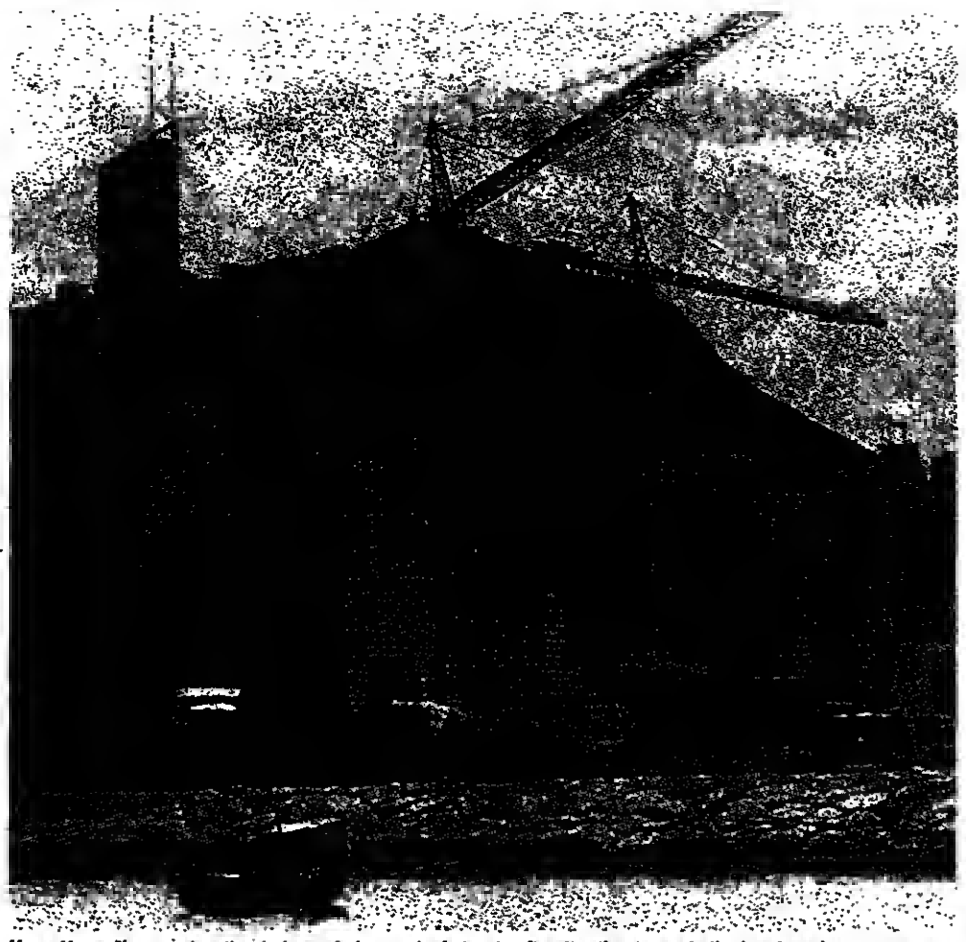
There is also a far greater reliance on Shenzhen factories (which are likewise often Japanese funded) to produce higher value added goods, including laser printers, fax machines and telephones, electronic calculators and sophisticated cameras.

"The parts and accessories are made by Japanese manufacturers in Shenzhen, so the quality is also the same as it would be from Japan and the cost, generally speaking, is 20 – 30 per cent lower than in Japan," says Mr Inoue.

Nishimatsu Construction, a group active in key infrastructure projects in the colony, including the new airport, has also been veering increasingly towards local technology over its 32 years in Hong Kong.

The construction industry is a big magnet for yen, and few big road, tunnel or bridge projects are carried out without some form of Japanese participation, either in building or financing. Japanese companies (defined by country of origin) have scooped the lion's share of the 155 big projects for the new airport and linking railway. Government figures show Japanese contractors have secured HK$23.4bn worth of the projects, or 25 per cent of the contracts awarded so far. The figure puts Japan ahead of both Hong Kong (HK$21.45bn) and Britain (HK$15.1bn).

Mr Makaboko, general manager of Nishimatsu in Hong Kong, says that initially Japanese technology was vital. However now that local technology is as good as that in Japan, and much cheaper, the preference is to go local, especially in the construction field.



Hong Kong: the construction industry is increasingly turning its attention towards the local market *Picture: Reuter*

However, in civil engineering Hong Kong lags behind, and Nishimatsu continues to have recourse to Japan.

Even so, Ms Pansy Yau, economist at the Trade Development Council (TDC) in Hong Kong, says the lure of Japanese technology remains one of the big draw factors for Hong Kong companies seeking joint venture partners. According to a survey of Hong Kong-based manufacturers and exporters by the TDC, yet to be released, half of the respondents said Japanese companies had assisted them in technology and product design.

Mr Inoue reckons technology transfer has already taken place to a large extent in original equipment manufacturing of electronics, personal computers and telecoms, and he notes that continued transfer of skills is very much part of government policy – Jetro itself is promoting technology transfer by sending Japanese quality control specialists to Hong Kong and China sites.

The trend for technology transfer is growing rapidly despite Hong Kong's developing home-grown skills, and this is attributed by Ms Yau to the rapid growth in computer technology and telecoms. This has been most recently demonstrated by Hongkong Telecom's deal with Japan's Nippon Telegraph and Telephone/DoCoMo (NTT) and Itochu to push the Japanese personal handyphone system (PHS) technology in Asian markets and potentially worldwide.

The banks largely employ technology transfer by – in the first instances – shipping computer systems from Japan and then relying on Japanese managers in situ and training locals (who are often sent to Tokyo on short stays for this purpose) in order to have a global unified set-up.

But as one Japanese executive banker said, this does not necessarily make for the best: "In a place like Hong Kong technology is so advanced and ideally you want flexibility in adjusting to the local market. That's something you lose if you're dependant upon head office."

Nomura International, which has been in Hong Kong for some 30 years, would appear to agree. The company is now developing a new computer system, in conjunction with a UK software house, as part of a policy to procure the best available product and value whatever the country of origin.

The financial institutions also tend to prefer to keep Japanese staff at the top – although Nomura splits the job between one Japanese employee and one local. Japanese staff make up 10-15 per cent of the total workforce; towards the lower end for commercial banks and higher for investment banks.

Like the construction and manufacturing industries, the banking sector is increasingly turning its attention towards the local market – both in terms of technology and, more noticeably, client base.

■ **The yen's international role:** by Gerard Baker in Tokyo

Tokyo may recognise the benefits of a bloc

Asian governments are showing keen interest in the wider use of the yen

One of the most prominent features of Japan's closer links with the rest of Asia is the growing use of the Japanese yen in international transactions. Twenty years ago, the yen was rarely sighted outside the country's own shores. Now it is of growing significance in international trade and capital markets.

This change has encouraged talk of an emerging "yen bloc" in Asia, similar to the D-Mark bloc in Europe. For years, the Japanese government opposed such a development, concerned about the restrictions it might place on the autonomy of the country's monetary policy. But there are growing signs that it now acknowledges the benefits of a yen bloc may have begun to outweigh the disadvantages. Perhaps more surprisingly, Asian governments are also showing keen interest in the wider use of the yen.

For the Japanese, the internationalisation of their currency has several advantages.

Most obviously, Japanese companies would benefit in international trade. When most trade is denominated in dollars, the costs to Japan's exporters of a higher yen are immediate and damaging. If they can persuade foreign companies to accept yen invoices, they can limit at a stroke the damage done by the yen's seemingly inexorable rise over the past few decades.

That has been the principal reason for the internationalisation of the yen in recent years. In 1970, less than 1 per cent of Japan's exports were denominated in yen. By 1986, the figure had risen to 36.5 per cent. Since then progress has been slower; by 1995, the figure had risen to just 38 per cent. For imports, the shift in the past few years has been more marked – up from less than 10 per cent of total imports in 1986 to more than 24 per cent this year. Those figures do not imply a global shift towards the yen, but disaggregation of the figures shows an important regional change – a much greater use of the yen in Asia. The proportion of total Japanese exports to Asia invoiced in yen rose from 39 per cent in 1986 to 48 per cent last year. Imports were up from 9.2 per cent to 34 per cent.

There is an equally strong incentive for Japan to see more use of the yen in capital markets. Between 1985 and 1995, Japan's financial institutions experienced a capital loss on their holdings of foreign currency assets of Y37,000bn. If more of those assets had been held in yen, the losses for Japan's banks and life insurers would have been much less.

Japan's $130bn current account deficit will continue to produce capital outflows into overseas assets, but institutions are anxious to shift a large part of that into yen assets. In the past two years, Japanese investors have begun increasing their holdings of yen-denominated assets. They would like that process to continue, and there are signs that it is spreading to Asian bond issuers.

Dr CH Kwan, economist at Nomura Research Institute, says: "Ideally the Japanese would persuade the US government to issue yen bonds, but that's a little unlikely. Instead, they are trying to encourage Asian countries to issue more yen assets."

But while Japan clearly enjoys a variety of benefits from the wider use of the yen, what does the rest of Asia have to gain? On the face of it, not much. Asian countries outside Japan have, in fact, benefited from their dependence on a weakening dollar. The yen's rise against the US currency has made their goods cheaper in Japan, helping bolster their growth.

Secondly, Japan's currency-induced problems have resulted in substantial inward investment by Japanese companies into Asia – a process that could presumably be expected to slow if the yen replaced the dollar in intra-regional trade. But Asian countries recognise that there have been costs, too. Since most of their currencies have been pegged more closely to the dollar, they have depreciated against the yen over the past decade. While that has helped exports it has also fuelled domestic inflation.

As more countries in the region grow to economic maturity the task of restraining inflation becomes increasingly important. Using the yen in international trade would help them achieve that.

The yen's rise has also raised the real value of their national debt. The proportion of east Asian countries' debt denominated in yen rose from 17.9 per cent of total debt in 1980 to 30 per cent in 1993. As the Japanese currency has appreciated, servicing costs have risen sharply. The solution is for countries to shift their currencies towards the yen. Earlier this year the central banks of Malaysia and Thailand raised their holdings of yen as a proportion of their total reserves. Other countries are expected to follow suit.

According to analysis by Nomura Research Institute in Tokyo, these pressures have raised the importance of the yen in Asian financial markets. Dr Kwan estimates that the weighting given to the yen in currency baskets has increased this year for most Asian currencies. For Taiwan, for example, the yen's weighting has risen from 6 per cent of the currency's total in the early 1990s, to more than 30 per cent today. This process has been reflected in the gradual strengthening of the relationship between the yen and the Asian currencies. A de facto yen currency area is already slowly emerging.

It is unlikely to be an easy process. The highly regulated nature of Japan's capital markets severely limits the attractiveness of holding the yen for most international investors. But the sheer weight of Japan's economy within the Asian region, and the diminishing attractions of the dollar should ensure that something like a yen bloc emerges within the next decade.

■ **Japan's role in regional co-operation:** by Kieran Cooke

Tokyo comes under fire from Mahathir

The Malaysian leader feels Japan has failed to open its markets while expecting access to markets in the developing world

There was a time when Dr Mahathir Mohamad, Malaysia's prime minister, sung the praises of Japan. In the mid-1980s he announced Malaysia's "Look East" policy, saying that if his country was to achieve its ambition of being fully industrialised by the year 2020, then it had to learn from Japan and make use of Japanese technology.

Dr Mahathir's sentiments towards Japan have changed. Malaysia feels Japan has been reluctant to share its technology. Dr Mahathir says Japan has done little to mitigate the effect of the rise of the yen on Malaysia and other developing countries still heavily dependent on Japanese imports.

In 1994 about 30 per cent of Malaysia's foreign loans were from Japan. "We were not given even one yen reduction," said Dr Mahathir. "Yen loans are not cheap at all. They are very expensive."

The Malaysian leader also feels Japan has failed to open its markets while expecting access to markets in the developing world. "Countries like Malaysia are subjected to quotas and non-tariff barriers when they try to export to Japan – even for products like canned pineapples," says Dr Mahathir.

However, the main gripe Dr Mahathir has with Japan is Tokyo's failure to rally to support the formation of an East Asian Economic Caucus (EAEC), a body first proposed by the Malaysian leader in 1991.

Malaysia suspects that the world is being divided into trade blocs. In particular, it is deeply suspicious of the US and the North American Free Trade Agreement (Nafta). Dr Mahathir wants the fast-growing countries of east Asia to join together to discuss common positions on trade questions.

Malaysia's fellow members of the Association of South East Asian Nations (Asean) have only been lukewarm about the EAEC. China has given the organisation guarded backing. Dr Mahathir wants Japan to play a leading role: during a visit to Tokyo last year he said Japan could make amends for its past "dark deeds" by working with the countries of East Asia.

"We are asking you to be a leader in this region," said Dr Mahathir. "If you really wish to make amends for your past, this is your chance. If you think that we should co-exist then the EAEC is a step towards co-existence; towards mutual help; towards closer and more meaningful relations among East Asians."

> Malaysia's trade minister describes the Japanese stance as like that of a bashful bride

But despite Dr Mahathir's pleading, Japan has been noncommital about the EAEC. Mrs Rafidah Aziz, Malaysia's trade minister, describes the Japanese stance as like that of a bashful bride.

On one hand Japan is deeply involved in the region's economies, with an estimated \$48bn invested in the Asean countries – nearly a third of its total overseas investments.

But Japan is more concerned with its relations with the US than with Malaysia and other countries in south-east Asia. The US is not in favour of the EAEC. Mr James Baker, former US secretary of state, said an EAEC would "draw a line down the Pacific," with the US on one side and Japan and the other Asian economies on the other.

Dr Mahathir says Tokyo is too sensitive to Washington's views. The Malaysian prime minister has won the admiration of some politicians, mostly on the right of the Japanese spectrum, for his call for the countries of East Asia to stand up to perceived Western pressure on trade and other matters. *An Asia that can Say No: A Card against the West*, a book co-authored by Dr Mahathir and Mr Shintaro Ishihara, a popular right-wing politician and author, has had brisk sales in Japan.

Japan also remains sensitive to fears expressed in some Asian countries of growing Japanese economic dominance – which inevitably conjures up wartime memories of Japan's "Greater Co-Prosperity Sphere." For these reasons Tokyo is unlikely to want to take a lead role in an organisation such as the EAEC.

However Jepan is deeply involved in other regional groupings. It is a leading participant in the 18-member Asia Pacific Economic Co-operation forum (Apec), and Tokyo has also played an important role in the Asean Regional Forum, a recently-formed regional body which aims to promote dialogue on security issues. Although Asean driven, the forum includes the US, Japan, South Korea, Australia, New Zealand, the European Union, China, Russia, Laos, Cambodia and Papua New Guinea.

Japan has spoken out strongly et forum meetings about French nuclear testing in the Southe Pacific. It has also expressed its concern about China's continued testing of nuclear warheads.

But Japan's presence in the region is generally low key. Some are frustrated with Tokyo's frequent failure to take a stand on issues.

"Japan keeps its head down and concentrates on business above all else," says a Malaysian official. "It still does not realise that with its economic power come certain responsibilities."

PROFILE Sony

Joint venture is part of tidal wave

Sony, the Japanese consumer electronics group, will by spring 1997 be making more than 1m mobile telephones a year at an industrial park near Beijing airport.

The \$29m joint venture, Sony's first on mainland China, is typical of the new wave of Japanese investment. It is part of a tidal wave of money breaking over many of Japan's Asian neighbours, but increasingly focused on China.

The Beijing mobile phone project follows a video cassette recorder joint venture launched in Shanghai last year and foreshadows two or three more Chinese projects under negotiation, says Mr Kenji Tamiya, Sony's senior managing director.

The potential political and financial risks of investing in China are huge, but Sony, like others, can no longer afford to be hyper-cautious about entering a market of more than 1bn people whose demand for consumer electronics is growing at roughly 20 per cent a year.

East Asia, including China, is a "goldmine for existing products," he says.

Sony's experience in East Asia well illustrates the Japanese investment trend in the region. First cautious steps into local assembly of largely imported components for export to third countries have been followed by ever-larger investments using higher proportions of locally-made components for assembly into products for the local market, exports to other Asian countries, the US and, increasingly, back to Japan.

For Sony's investment in the region, the main driving force has been the fast growth of east Asian markets themselves, now expanding at 15-20 per cent a year; the fastest growing region in the world. Over the past decade, Sony's sales in the region have grown from 6 per cent to 20 per cent of the group total.

Sony first set foot in east Asia in April 1967, almost by chance, when the acquisition of another Japanese company happened to include a radio and telephone producing unit in Taiwan. Its second step into the region, a television tuner factory in South Korea, also came as the result of an acquisition, in 1973.

Then came a nine-year gap, during which Sony made no east Asian investments, focusing instead on its home ground. That was understandable, in a period when the Japanese domestic market was experiencing the kind of growth only now seen among Asian high flyers.

A Malaysian radio, Walkman and telephone plant opened in 1984 – Sony's first greenfield plant in Asia – followed by a video cassette recorder factory in Taiwan in the same year. But the dam did not really burst until after the 1985 Plaza Accord, when the world's leading economies agreed to co-operate to devalue an over-valued dollar. That was the turning point for the yen, which touched Y263 to the dollar that year and has since moved to around Y100, in the process rendering large swathes of Japanese domestic manufacturing uncompetitive.

Sony, like others, took the only option; to move production offshore, in search of cheaper costs and easier exchange rates. "We just had to do it, to keep our products competitively priced," says Mr Toshiyuki Takinaga, general manager for consumer and audiovisual products.

By the end of the decade, eight more Sony plants were in operation in Singapore, Malaysia and Thailand, since when they have been joined by five more – in Indonesia, Singapore, China, Vietnam and India.

Now, 25,000 of Sony's 138,000 employees are in Asia, within which Malaysia counts the highest number of staff – 18,500 – of any single country outside Japan. Local content is high, up to 97 per cent for video recorders and televisions in Malaysia.

This includes a substantial proportion of components made in other Asian countries, an illustration of how Japanese investment has contributed to the growing inter-dependence of Asian economies. Sony's Malaysian colour televisions, for example, contain picture tubes made at another Sony plant in Singapore.

The Plaza Accord and the need to compensate for the high yen dictated the timing of Sony's Asian expansion, but was only one part of the underlying rationale for it. Mr Tamiya explains: "We were not only seeking inexpensive labour. We had a clear vision at that time that making investments would raise purchasing power in Asian countries so that they would become more important markets for Asian products."

In Malaysia, for example, Japanese companies alone account for 6 per cent of gross domestic product, according to the Japan External Trade Organisation.

Another factor in Sony's Asian expansion was the desirability of avoiding high import duties on assembled goods. Local assembly of imported parts was the obvious answer, as Sony and many other Japanese companies also discovered in Europe – one factor in the rapid growth in the 1980s of Japanese investment there.

But as in Europe, that pressure has now started to recede as the more industrialised Asian countries begin to reduce their tariff barriers. The Philippines, Malaysia, and Indonesia have all, this year, promised to reduce import duties faster and further than the minima required in last year's Uruguay round of the General Agreement on Tariffs and Trade.

Sony's planners were also guided by the company philosophy of keeping its geographical sales split – supported by local production – in proportions roughly equal to the breakdown of the world consumer electrics market. Thus, Asia's one fifth share of Sony's sales compares with a quarter in Europe and a quarter in North America.

Mr Tamiya aims to keep the balance about the same for the foreseeable future. Within that, however, Asian economies' dynamism is such that he believes they could double their world share of Sony's existing products to between 40 and 50 per cent in the next decade.

However, the overall share would remain as it is now, because Europe and North America would, on past performance, continue to buy the lion's share of new products, believes Mr Kamiya.

But despite the attractions of fast growth and gradual reduction of import barriers in the region, Sony does not intend to lose sight of the importance of continuing to cultivate its growth in the mature markets of Europe and North America.

Disproportionate exposure to Asia "would not be the Sony way," says Mr Kamiya.

William Dawkins

	Facility	Start	Products
1	Taiwan Toyo Radio	1967	Radios, Walkmans, telephones, tape recorders
2	Sony Electronics of Korea	1973	Precision comp, CD Boomboxes, headphones, TV tuners
3	Toyo Audio	1984	Radios, Walkmans, telephones
4	Sony Video Taiwan	1984	1/2" VCR, multi-disc players
5	Sony Precision Eng. Center	1987	Precision components
6	Sony Electronics	1988	Hi-fi audio, Walkmans, CD Boomboxes, Discmans
7	Sony TV Industries	1988	CTV, TV tuners, deflection yokes
8	Sony Magnetic Products	1988	Audio tapes
9	Sony Siam Industries	1988	CTV, audio
10	Sony Semiconductor	1988	Bipolar ICs, MOS-ICs
11	Sony Mechatronic Products	1990	3.5" MFDD
12	Sony Video	1990	1/2" VCR, CD-Rom drive
13	PT Sony Electronics Indonesia	1992	Hi-fi audio, Boomboxes, CD Boomboxes
14	Sony Display Device	1992	CRT
15	Shanghai Suogang Electronics	1994	8mm VCR components, optical pick-ups
16	Sony Vietnam	1994	CTV, audio
17	Sony India	1995	CTV